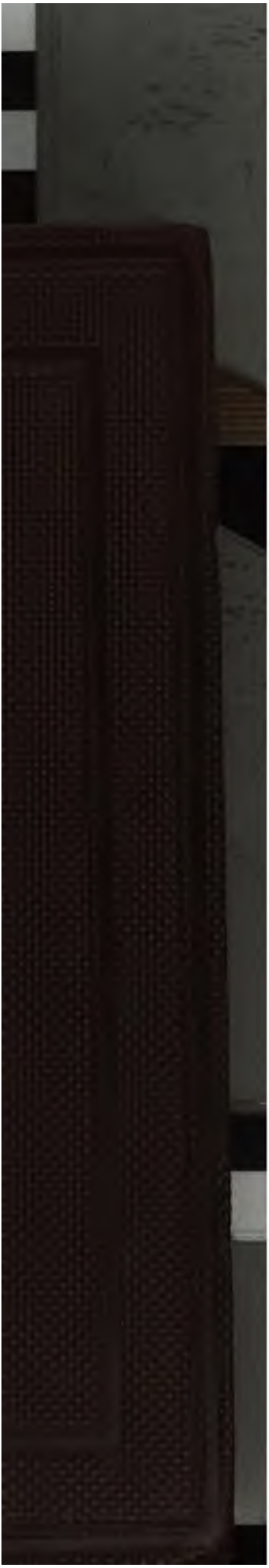

THE MARQUIS OF NORMANBY'S NEW WORK.

A YEAR OF REVOLUTION.

A TREATISE

ON

COINS, CURRENCY, AND BANKING.

LONDON
PRINTED BY SPOTTISWOODE AND CO.
NEW-STREET SQUARE

A TREATISE

ON

COINS, CURRENCY, AND BANKING.

WITH OBSERVATIONS ON

THE BANK ACT OF 1844

AND ON THE

REPORTS OF THE COMMITTEES

OF THE

HOUSE OF LORDS AND OF THE HOUSE OF COMMONS

ON THE BANK ACTS.

BY HENRY NICHOLAS SEALY, ESQ.

.... Magnâ testatur voce per umbras:
Discite justitiam moniti.
VIRGIL.

LONDON
LONGMAN, BROWN, GREEN, LONGMANS, & ROBERTS.
1858

PREFACE.

Sir Robert Peel observed, when he introduced the Bank Bill of 1844, that in the opinion of Her Majesty's Government, "Inquiry had been exhausted."

Since the passing of that Act, the subject of the Currency has been much discussed. A Committee of the House of Lords and a Committee of the House of Commons have made valuable reports on the commercial distress of 1847, which was supposed by many to be closely connected with the system of banking introduced by Sir Robert Peel's Bill; the witnesses are not agreed upon the influence which the Bank of England may have had in producing or aggravating that distress, nor are the Committees agreed upon any remedial measures; the Committee of the House of Commons recommending no alteration in the Act.

Since these reports were made, a Committee of the House of Commons sat in the last session of Parlia-

ment on the same subject, and which has been reappointed to carry on the inquiry in the present session, and also to inquire into the causes of the commercial distress of 1857. This Committee made a report of the evidence given before them in the last session, and is still sitting. On these reports and on the evidence I have made some observations, with an epitome of the report of the House of Lords.

It appears to me that "inquiry" is not "exhausted," and that "those great elementary truths" (in the language of Sir Robert Peel, p. 18) "which are at the foundation of the whole system of currency, paper credit, and foreign exchange," are still *desiderata.*

For many years I have been in the habit of watching the course of events connected with our present system of banking, and of noting down my remarks as they have occurred. The publication of this treatise has been delayed from various causes; a great part of it, as far as Chapter XVI. inclusive, was printed last summer. I then waited to see the Report of the Committee sitting at that time.

I have perused some of the many publications which have appeared on the currency; they generally treat of management, and not of principle: opinions which I had previously formed, and committed to writing, I have in some instances found confirmed.

Many years before the passing of the Bank Act of 1844, I had conceived and written my plan for changing our gold to a silver standard: as the principle is the same whether the change be from a gold to a silver or from a silver to a gold standard, I have thought that it may be desirable to publish it in this treatise. There was no prospect of our standard being changed in 1844. The discovery of the gold mines in Russia rendered very doubtful the policy of adopting the silver standard, and the recent discoveries of gold in California and Australia render more hazardous any change in the domestic or national standard: it will be prudent to wait to see what effect these wonderful discoveries may have on the standard of this and of other countries.

I may remark that the principles which I advocate are of universal application wherever foreign commerce exerts its civilizing influence, and I venture to recommend them to the notice of the great mercantile republic, the international traders of all countries.

I trust it is needless for me to disclaim all intention of impugning the motives of any writer, or of any witness who gave evidence on this long-agitated question of the currency, or of any director of the Bank of England; least of all, would I think or speak disrespectfully or question the motives of Sir Robert Peel. That great man had the courage to overthrow

a narrow commercial policy, which had for ages prevailed more or less, and which had been continued, notwithstanding the cogent reasoning of Adam Smith, by whom it had been denounced seventy years before, nor would that enlightened legislator have shrunk from introducing any new measure of currency or banking, even in opposition to his own bill, had he thought it conducive to the welfare of the country. (Debate, May 10, 1847. — Hansard.)

If it can be shown that the circulation of coins may be brought within the rule which governs the exchange of commodities; that the value of paper money depends upon the performance of a promise; that bank notes may be placed in the same category as any other written engagement that circulates among the community in the payment of debt; that the basis on which they rest is truth, and that the absence of truth is their only weakness, I think the subject will be divested of much obscurity, and the currency question "will be drawn from those dark recesses wherein," it appears to me, that "man, not God, has hid it."

Taking truth and justice as the only safe principles, and Adam Smith as the great political writer on commerce, I venture to submit my opinions to the public,

and I shall be quite willing to yield assent to any more *just* or more *true* system, if it be discovered.

The author of the present treatise hopes that his attempt to elucidate this "questio vexata," will be received with candour, and that some indulgence will be shown for any defects of style, by those who may honour it with a perusal.

Castle Hill House, Nether Stowey, Somerset:
June, 1858.

CONTENTS.

CHAPTER I.

ON COINS.

CHAP. II.

COINS AND CURRENCY.

CHAP. III.

ON SEIGNORAGE.

CHAP. V.

ON CHANGING THE STANDARD.

CHAP. VI.

ON THE FOREIGN EXCHANGES.

CHAP. VII.

ON THE BANK OF AMSTERDAM.

CHAP. VIII.

MR. M'CULLOCH ON THE BANK OF AMSTERDAM.

CHAP. IX.

ON THE MERCANTILE SYSTEM.

CHAP. X.

ON THE BASIS OF THE CURRENCY.

CHAP. XI.

ON THE BANK ACT OF 1844.

CHAP. XII.

ON BANKING IN THE UNITED STATES.

CHAP. XIII.

ON THE CONTROLLING POWERS OF THE BANK OF ENGLAND.

CHAP. XIV.

ON THE EQUIVALENCY OF BANK NOTES TO COIN.

CHAP. XV.

ADAM SMITH ON BANKING — ON NATIONAL AND INTERNATIONAL BANKS, AND INTERNATIONAL TREASURIES.

CHAP. XVI.

ON THE OVER-ISSUE OF BANK NOTES. — THE BANK OF AYR.

CHAP. XVII.

ON LESSENING THE CIRCULATION OF THE BANK OF ENGLAND.

CHAP. XVIII.

WEEKLY STATEMENT OF THE BANK OF ENGLAND.

CHAP. XIX.

MR. M'CULLOCH ON PAPER-MONEY.

CHAP. XX.

LORD ASHBURTON AND MR. HORSLEY PALMER.

CHAP. XXI.

ON CREDIT.

CHAP. XXII.

ON THE AMERICAN GOLD AND SILVER MINES.

CHAP. XXIII.

ON THE GOLD DISCOVERIES IN AMERICA, AUSTRALIA, AND CALIFORNIA.

CHAP. XXIV.

DEBATE, MAY 10, 1847, ON THE BANK ACT.

CHAP. XXV.

OBSERVATIONS ON SOME OPINIONS OF SIR ROBERT PEEL, SIR CHARLES WOOD, COLONEL TORRENS, MR. THOMAS BARING, SIR ARCHIBALD ALISON, MR. WEGUELIN, AND LORD OVERSTONE.

CHAP. XXVI.

A COMPENDIUM OF THE REPORT OF THE SELECT COMMITTEE OF THE HOUSE OF LORDS, WITH SOME OBSERVATIONS ON THE REPORT AND ON THE EVIDENCE.

CHAP. XXVII.

CHAP. XXVIII.

FURTHER CONSIDERATIONS CONCERNING THE BANK ACT OF 1844.

CHAP. XXIX.

CHAP. XXX.

T. M. WEGUELIN, ESQ., ON THE EXCHANGES—ON THE BANK OF ENGLAND HOLDING THE RESERVES OF BULLION—ON THE MORAL RESPONSIBILITY OF THE BANK—ON SCIENTIFIC AND MECHANICAL PRINCIPLES—LE BLANC AND BAZINGHEN ON THE FRENCH COINAGE—ON THE GOLD AND SILVER STANDARD, AND ON BANK NOTES AND COIN—ISSUES OF THE ENGLISH, SCOTCH, AND IRISH BANKS—REMEDIAL MEASURES SUGGESTED.

APPENDIX.

A

TREATISE

ON

COINS, CURRENCY, AND BANKING.

CHAPTER I.

ON COINS.

THE money of a country is that commodity which passes current among the people of that country, as the measure of value in the exchange of commodities. Among a rude people, where barter is the only means of exchanging one commodity for another, there will be no money: as people become civilised and their wants are multiplied, a commodity will be discovered which shall be constantly in demand, and this commodity will vary with the wants of the community.

Adam Smith*, vol. i. b. 1. c. iv. p. 31.:—

"In the rude ages of society, cattle are said to have been the common instrument of commerce; and, though they must have been a most inconvenient one, yet in old times we find things were frequently valued according to the number of cattle which had been given in exchange for them. The armour of Diomede, says Homer, cost only nine oxen, but that of Glaucus cost an hundred oxen. Salt is said to be the common instrument of commerce and exchanges in Abyssinia; a species of shells in some parts of the coast of India; dried cod at Newfoundland; tobacco in Virginia; sugar in some of our West India colonies; hides or dressed leather in some other countries: and there is at this day

* Adam Smith's Wealth of Nations, 3 vols. Glasgow, 1805.

a village in Scotland, where it is not uncommon, I am told, for a workman to carry nails instead of money to the baker's shop or the ale-house."

As the intercourse with other people becomes more extended, the tobacco, the salt, the cowries, and the iron nails will not be taken as media of exchange by those who have no use for them ; and as the objects of exchange become more valuable, the medium article of exchange must also be of greater value, to suit, by the smallness of its bulk and facility of transport, the more extended office of exchange.

Gold and silver possessing those qualities in an eminent degree, added to their durability and little liability to waste, were at length adopted by civilised nations as the media of exchange: they were adopted on account of their universal value; they were valued in themselves, as articles of commerce, before they were used as the media of exchange; and were adopted as media of exchange solely on account of their universal value, as articles of commerce. The value of the precious metals when used as money is neither fictitious nor conventional: their value is derived from the same source which confers value on all other commodities, — the labour and the difficulty of procuring them, together with the demand and the supply. When this gold and silver are stamped, after being divided into certain pieces, indicated by the stamp to be of a certain weight and fineness, they acquire the name of coins, and the different pieces are the different coins of the country where they circulate; but that coin only which is a legal tender in the discharge of debt to any amount is the *money* of the realm.

When Abraham purchased the field from Ephron for four hundred shekels of silver, current money with the merchant, he paid with money by weight, and not by tale; the silver was of ascertained fineness, but not of ascertained weight. An ascertained fineness and an ascertained weight are both necessary to constitute coin, the measure of value.

The payment by money is, *in one sense*, a species of barter, if a barter of all other commodities for one commodity can be so termed: the thing bought or sold for a sovereign is bought or sold in exchange for a certain quantity of gold of a certain fineness, and may be said to be bartered for the gold.

The gold is always payable at the moment, or at a future time; and if we consider money as a commodity or merchandise, bartered in exchange for other commodities, it will the more readily be understood to be subject to the same laws as other commodities, and the term money will be divested of much of its obscurity: buying and selling in Great Britain is nothing more than a continual bartering of things for gold; that metal being now the standard in this country, and the measure of value.

In our coins of circulation the only *money*, as a *measure of value*, is the "sovereign," named, in money of account, the "pound sterling." It is desirable that the integer money of account and the integer coin — the *legal tender* coin — should be the same. We have this great advantage, and it would clear the subject of ambiguity if the same name were given to both, — the pound sterling and the sovereign being one thing. The pound of account should be called a sovereign, or the sovereign a pound; both having the same name, the identity could not be doubted.

Adam Smith observes, vol. ii. b. 4. c. i. p. 213.: —

"They (gold and silver) are to be bought for a certain price, like all other commodities, and as they are the price of all other commodities, so all other commodities are the price of those metals."

No exchange of commodities takes place without an equivalent value between the respective commodities, to the satisfaction of buyer and seller. But the different coins circulating in the same country are different sorts of commodities. The coin is a commodity; and when one kind of coin is exchanged for another kind

of coin, it is one commodity that is sold for another commodity, and the coin will seek the best market. There is a traffic in coins *inter se.* The interchange of coins will be determined by the common rule of profit and loss. When a sovereign is changed for twenty shillings, the silver of the shillings is sold for the gold of the sovereign. When twelve copper pence are changed for a shilling, the copper of the pence is sold for the silver of the shilling. The copper coin finds in the silver shilling the best market, as the silver coin finds in the gold sovereign the best market. The law that determines that a sovereign shall exchange for twenty shillings procures and insures to the shilling the best market; and the law that determines that twelve pence shall exchange for a shilling procures for the pence the best market. The twelve copper pence and the silver shilling, if melted or exported, would not be worth the twentieth part of a sovereign. As twelve pence exchange for a shilling, and twenty shillings for the sovereign, the sovereign determines the value of both: 240 pence and 20 shillings are of equal value; and both are of equal value to the sovereign. If the 240 pence or the 20 shillings were worth, as silver or copper, more than the sovereign; if the silver in the shillings, or the copper in the pence were in the market of the world worth more than the gold in the sovereign, they would be melted or exported. The same private interest, which now retains them in the circulation, would drive them from it in the form of copper and silver. The silver shillings exchange with the sovereign at the rate of about ten per cent. more than the value of the silver in the shillings relatively to the gold in the sovereign, and the copper pence exchange with the shillings, and virtually with the sovereign, at perhaps forty per cent. more than the value of the copper relatively to the gold in the market of the world; and in this way private interest secures the circulation of silver and copper coins without any hazard of their being melted or exported;

and our silver and copper coins are virtually gold, because gold can always be had for them. To prevent individuals deriving benefit from this over-valuation, the State reserves to itself the right of coining the silver and copper coins. This is the important rule of the coinage, and which has been adopted in the present coinage of Great Britain, than which nothing can be more perfect as a gold standard. These silver and copper coins are by the talisman of private interest as truly gold, as if the sovereign were divided into 20 portions for the shillings, and 240 portions for the pence, and 960 portions for the farthings; and as if these small gold coins, like the parisis d'argent in the reign of St. Louis of France, were affixed to pieces of leather on account of their minuteness. By virtue of private interest, the transmutation of metal is accomplished, a charm more potent than the skill of the alchemist.*

The integer money is itself an equivalent — a commodity of equivalent value to the commodity for which it is exchanged or sold: all other coins should be fractions of this integer, bearing themselves a relation to this integer in value, but not themselves equi-

* "Louis IX., ou Saint Louis, monta sur le trône en 1226.

"Sous ce règne on fabriqua d'autres deniers parisis d'argent très fin, mais si petits qu'il fallut les clouer sur un morceau de cuir, afin de les rendre plus frayables; ce qui a donné lieu de dire que sous le règne de ce Roi on avoit eu des monnoies de cuir, parceque le royaume étoit épuisé; ce qui ne nous paroit pas vraisemblable, puisque, vers la fin du règne de St. Louis, le marc d'or ne valoit que vingt livres, et le marc d'argent quarante sols."— *Traité de Monnoies*, Bazinghen, tom. ii. p. 109.

* *Dictionnaire des Monnoies*, par M. Abot de Bazinghen, Conseiller-Commissaire en la Cour des Monnoies, tom. ii., à Paris, 1764.

"Louis IX., or Saint Louis, ascended the throne in 1226.

"In this reign other 'deniers parisis' were coined of very fine silver, but so small that it was necessary to nail them to a piece of leather, to make them more current; which gave rise to the saying, that in the reign of this King they had leather money, on account of the kingdom being exhausted; which does not appear to us probable, since, towards the end of the reign of St. Louis, the marc of gold was worth only twenty livres, and the marc of silver forty sols."

valents. Silver and copper coins are in our coinage not truly coins in the sense of an equivalent, they are valuable tokens, not sufficiently valuable to take the place of the integer coin, but sufficiently so to protect them from being forged. They are not money in a sense of value: sixty-six shillings are coined from a pound of standard silver, and will exchange for three sovereigns and six shillings, being six shillings more than the actual value of the silver at five shillings an ounce. In coin, sixty shillings are equal in value to sixty-six shillings in bullion.

While gold, silver, and copper coins circulate as coin, only one can be the *money;* provided, the others are rated at more than their intrinsic value, and *ordered by the State* to exchange with this coin at more than their real value. The subordinate coins are never the *money* price or standard of value.

It is, therefore, sufficient, to ascertain that any coins are rated in exchange with another coin at more than their intrinsic value, to determine that these coins are not the standard of value; that silver coins, or copper coins, or gold coins, are rated in exchange with another coin at more than their intrinsic value, to determine that these coins are not the standard or measure of value; and, on the other hand, *that* coin for which they exchange *ultimately* for more than their intrinsic value is the *standard of value.*

In Great Britain copper coins are exchangeable by law with silver coins, and, virtually with the gold coin, at more than their intrinsic value. They are, therefore, not the standard of value, and we have not a copper price. The silver coins are exchangeable for gold coins at more than their intrinsic value; they are, therefore, not the standard of value, and we have not a silver price. These silver and copper coins exchange with the gold coin, the sovereign, at more than their intrinsic value; while the gold coins or sovereigns exchange at their intrinsic value with commodities, and are a legal payment in the discharge

of debt to any amount; and they are, therefore, the standard of value, and we have a *gold* price.

To ascertain the period when we had a gold standard, it will be sufficient to determine when the silver coins were legally made exchangeable for gold coin at more than their intrinsic value.

Nothing can be more perfect than our present coinage as a gold standard, and the practice of weighing the sovereigns at the public offices and at the banks will continue it so. It was in former times declared that the pound troyes of standard gold should be coined into forty-four guineas and a half. This is the same as coining the pound of standard gold into forty-six sovereigns and 14*s.* 6*d.*, or, which is the same thing, the ounce of standard gold into the twelfth of that sum, 3*l.* 17*s.* 10½*d.* It is to be regretted that any notice should be taken of silver coins and copper coins. If it had been said that the pound troy of standard gold should be coined into sovereigns and fractions of a sovereign—into $46\frac{29}{40}$ sovereigns—the money would have been more clearly understood to be all gold, without any allusion to silver or copper.

Writers who have treated professedly on the standard of value have fallen into the error of supposing that we have a silver price, and that gold could have a price in our coinage or *standard.*

In a pamphlet "On the Standard of Value and the Circulating Medium of this Country," by W. Debonaire Haggard, F.S.A., F.R.A.S., London, 1840, he reasons in the following manner (page 9.): —

"The common consent of all the world has fixed upon the precious metals as the representative of all commodities, so that any discrepancies in commerce may be rectified by them at such rates as the demand and supply may govern. In England *alone* is this advantage lost sight of by *fixing* a price for the purchase and sale of gold, both without limitation. Let us now see how these fixed prices appear to work, in a more familiar shape. Suppose *A*, to agree to purchase wheat at 1*l.* 19*s.* 11*d.* per quarter, in any quantity and at all times, without reference to demand and supply; and compelled to sell the same in any quantity and at all times at 2*l.* per quarter; must not *A.* of necessity be a victim in both

cases? While wheat could be grown or imported at a less price than 1*l.* 19*s.* 11*d.* per quarter, *A.* would be overwhelmed with an article for which he had no demand. Again, as soon as the price of wheat exceeded that of 2*l.* per quarter, he would, with equal certainty, be called upon to supply the article, and perhaps a demand made for a quantity beyond his ability to meet, and for the sake only of profit to individuals. These fixed prices make us the storekeepers of gold for all the world."

The correct statement would be—

"Suppose *A.* to agree to purchase (receive) wheat at the rate of 479 bushels for 60 quarters, in any quantity and at all times, without reference to demand and supply, and compelled to sell (deliver) the same in any quantity and at all times at the rate of 480 bushels for 60 quarters; must not *A.* be a victim in both cases?"

It is a question simply of quantity: the one bushel retained may be considered as a charge for storage, as the 1*d.* on the 1*l.* 19*s.* 11*d.* may be considered as a charge for coinage. There is no question of *price*. The 60 quarters of wheat would be always equal to 480 bushels of wheat of the same quality; as the two sovereigns in gold would be always equal to the same quantity of gold bullion of equal fineness.

They who think it unreasonable and inexpedient that gold should have a fixed price, that it should be invariable in its nominal value; who think that it should be purchased by those who want it at a price varying, like that of other commodities, according to the supply and demand, are misled by the supposition that gold can have *any price*, where gold is the standard or measure of value; or that silver can have *any price*, where silver is the standard or measure of value. This would be measuring value by itself, which is not possible. Money can have no price.

Very erroneous opinions have prevailed respecting money. The opinion of M. de Montesquieu is worth recording: "De l'Esprit des Loix*," liv. 22. c. vii.—

"L'argent est le prix des marchandises ou denrées," &c. &c.

"Money is the price of merchandise or of commodities, but how shall this price be fixed? that is, by what quantity of money

* De l'Esprit des Loix, par M. de Montesquieu, 4 tomes, Londres, 1769.

shall each thing be represented? If the entire mass of gold and silver which is in the world be compared with the mass of merchandise which is in it, it is certain that each article or commodity in particular may be compared to a certain portion of the entire mass of gold and silver: as the total of the one is to the total of the other, a portion of the one will be to a portion of the other. Let us suppose that there is only one merchandise or commodity in the world, or that there is only one that is bought, and that it is divided like the money; this portion of this merchandise will answer to a portion of the mass of money,—the half of the total of the one to a half of the total of the other; the tenth, the one-hundredth, the thousandth of the one, to the tenth, the hundredth, the thousandth of the other. But as that which constitutes property among men is not all at the same time (*dans le commerce*) in traffic, and that the metals or monies which are the signs of it are also not in traffic either at the same time, the price will be fixed in a ratio composed of the total of things with the total of signs, and of that of the total of those things which are in commerce with the total of the signs which are also in it; and as the things which are not in commerce or traffic to-day may be there to-morrow; and as the signs which are not in it to-day may, in like manner, be in it to-morrow, the fixing of the price of things depends always, fundamentally, upon the proportion that the total of things bears to the total of signs."

This notion of an abstract value in coins or money considered as signs, independently of their value as merchandise, is the source of much erroneous reasoning. Those who wish to promote commerce frequently talk of increasing the quantity of money or coins, as a means of doing it. The increase of money or coins is rather a consequence, than a cause, of the increase of commerce: the circulation offers a market in common with the demand from the jewellers for gold and silver; and this market, like the other, will be supplied according to the demand. The precious metals, whether in the form of coin or of plate, are merchandise, and rise and fall in price in the market of the world; that is, exchange with a greater or less portion of other commodities, according to the supply and demand, and the labour and difficulty of procuring them.

Gold and silver, or money, are considered by M. Montesquieu as having only a *representative* character, denoting, by the *quantity* of these metals in existence

at any one time, the value or price of the commodities existing at the same time. They are considered simply as signs: as the proportion of the total of signs compared to the total of things becomes greater, prices fall; and as this proportion becomes less, prices advance. A value is attributed to the gold and silver money as signs independently of their value as merchandise: no allusion is made to what determines the prices, or exchangeable value of gold and silver, with commodities except the consideration of their abundance or rarity relatively to the mass of property. Gold and silver in coin are themselves merchandise of a certain and determinate character: they find in coin an appropriate use, — appropriate from their fitness to answer this purpose. The value of gold and silver fell to one third of their former value after the discovery of the American mines, and the prices of commodities advanced to perhaps treble or more of their former price; not altogether because there was three times the quantity of gold and silver raised from the mines, but because the precious metals could be procured with *less labour*, and in greater abundance or supply relatively to the demand: agreeably to the doctrine of Adam Smith, vol. i. b. 1. c. ii. p. 258., "Labour, it must always be remembered, and not any particular commodity or set of commodities, is the real measure of the value both of silver, and of all other commodities."

The decreased value of the precious metals may have borne no definable proportion to the increased mass of each in the world, or to the mass of merchandise; a more general use may have been found for the gold and silver in the more general use of plate, and a larger quantity may have been required by the increased activity given to commerce and manufactures by the opening of new markets. As commodities become cheaper, their use and consumption extend in a much greater ratio than the difference of price: the lower price introduces a new description of consumers

and purchasers, which becomes more numerous as the commodity becomes less costly. It is so with gold and silver, or money. As money becomes cheaper, the use of it extends through a more numerous and less wealthy class. Those who consumed the merchandise and used the money, consume and use more; but a much more numerous class use and consume now, who before did not use or consume at all.

M. de Montesquieu relates something very extraordinary on the subject of money, Liv. 22. chap. viii.:—

"'Les noirs de la côte d'Afrique ont un signe des valeurs sans monnoie,' &c. 'The negroes on the coast of Africa have a sign of value without money; it is a sign purely ideal, founded upon the degree of estimation which they attach in their mind to each article of merchandise, in proportion to their want of it. A certain article of merchandise is worth three macutes; another six macutes, another ten macutes; it is as though they said simply, three, six, ten.' The price is fixed by the comparison they make of all the articles of merchandise among themselves; then there is no particular money, but each portion of merchandise is money for the other.

"Let us transfer for a moment to ourselves this mode of valuing things, and let us join it to our mode. All the merchandise and goods of the world, or at least all the merchandise and goods of one state in particular, considered as separated from all the others, will be worth a certain number of macutes; and dividing the money of this state in so many parts as there are macutes, one separate part of this money will be the sign of one macute.

"If we suppose the money of a state is double, for one macute there must be double the quantity of money; but if in doubling the money you double also the macutes, the proportion will remain such as it was before the doubling of one or the other."

On what part of the coast of Africa this mode of calculating the cost of merchandise prevailed, M. de Montesquieu has not informed us, nor by what mental process the negroes arrived at a comparison of the worth of each article compared with the worth of every other article; at a comparison of the want of one article compared with the want of every other article. We are reminded of the definition of the standard of value quoted and ridiculed by Sir R. Peel *: — "The

* Sir Robert Peel's Speeches on the Renewal of the Bank Charter and on the Laws of Currency and Banking, p. 10.

determines the standard of value relatively to commodities; and it is quite vain to endeavour to regulate the value of the whole coin upon the *principle* of one coin being of a more *precious metal* than the other.

Adam Smith, vol. i. b. 1. c. v. p. 58.: —

"Were the silver coin brought back as near to its standard weight as the gold, a guinea, it is probable, would, according to the present proportion, exchange for more silver in coin than it would purchase in bullion. The silver containing its full standard weight, there would in this case be a profit in melting it down, in order, first, to sell the bullion for gold coin, and afterwards to exchange this gold coin for silver coin to be melted down in the same manner. Some alteration in the present proportion seems to be the only method of preventing this inconveniency.

"The inconveniency perhaps would be less, if silver was rated in the coin as much above its proper proportion to gold as it is at present rated below it; provided it was at the same time enacted that silver should not be a legal tender for more than the change of a guinea; in the same manner as copper is not a legal tender for more than the change of a shilling. No creditor could, in this case, be cheated in consequence of the high valuation of silver in coin, as no creditor can at present be cheated in consequence of the high valuation of copper. The bankers only would suffer by this regulation. When a run comes upon them, they sometimes endeavour to gain time by paying in sixpences, and they would be precluded by this regulation from this discreditable method of evading immediate payment. They would be obliged, in consequence, to keep at all times in their coffers a greater quantity of cash than at present; and though this might, no doubt, be a considerable inconveniency to them, it would, at the same time, be a considerable security to their creditors."

It is to be observed that Adam Smith expresses himself with some diffidence upon altering the proportion between the gold and silver coin, and relies upon the provision that silver coin should not be a legal tender for more than the change of a guinea, "in the same manner as copper is not a legal tender for more than the change of a shilling."

Adam Smith, vol. ii. b. 4. c. iii. p. 274.:—

"In England it (the expense of coinage) is defrayed by the Government, and if you carry a pound weight of standard silver to the Mint, you get back sixty-two shillings, containing a pound weight of the like standard silver."

At the time he wrote every one had a right to

bring *gold* and *silver* to the Mint to be converted into coin, not at the charge of the person who brought it, but of the *State*. This was not the case with the *copper* coin, which the government reserved to itself the right of coining; and no private person derived any benefit from its being exchanged for a shilling by law, so much beyond its value. It would be necessary to confine the silver coins to the same restriction of coinage, to make the cases analogous. It was not the provision alone that copper coin should not be a legal tender for *more* than a shilling that secured "the creditors from being cheated," but the circumstance that copper coin should be a legal tender only for a shilling, *and no private person having the privilege of coining copper.* As no one could get the copper coin without paying for it at the rate of a shilling for twelve pence, and as a shilling could always be had for twelve pence, the twelve pence were worth a shilling. The market price of silver having, before the reformation of the gold coin, and after the reformation, been constantly, to the time when Adam Smith wrote, above the Mint price, no individuals brought silver to the Mint to be coined; and private interest was as effectual as any law would have been, in preventing any silver being coined, as it would have been attended with loss. The legal tender clause is inoperative when the price of silver is *above* the Mint price; and when it is *below* the Mint price it would not protect the standard, as individuals would then coin bullion at a profit, and the *money traffickers* would inundate the country with silver coin, and the gold coin would be melted or exported. The limitation to twenty-one shillings of silver coin as a legal tender would not then be a protection. As the bullion price of silver was above the Mint price, which effectually prevented its being coined, it was then in the same predicament in effect as the copper coin: the one was prohibited by law from being coined by individuals, and the other by private interest.

The limitation of the legal tender clause to forty shillings is now a matter of convenience. It may be inconvenient to the public to receive a larger sum in silver coin, but the limitation may be fixed at 40 shillings or 100 shillings, the silver being rated in the coin 7 or 10 per cent. above its proper proportion to gold, with perfect safety to the standard, *the Government always reserving to itself the right of coining the silver.*

It would be liable to the objection which Adam Smith mentions in the passage before quoted, that, "when a run comes upon them (the bankers), they sometimes endeavour to gain time by paying in sixpences; and they would be precluded by this regulation from this discreditable method of evading immediate payment." The bankers might pay their five-pound notes in *silver coin;* but they would not be able to procure the one hundred shillings for less than five sovereigns.

It may be worthy of consideration whether it would not be well, at the present prices of silver bullion to allow private people to have it coined *by the Government* at the Mint, on their receiving 60 shillings, coined at the rate of 5*s.* 6*d.* an ounce for every pound troy of standard silver: it might perhaps be the means of the circulation being more constantly and steadily supplied with silver coin.

It is observed by Adam Smith (b. i. c. 5. v. i. p. 57.):—

> "Before the reformation of the gold coin, the market price of standard silver bullion was, upon different occasions, 5*s.* 4*d.*, 5*s.* 5*d.*, 5*s.* 6*d.*, 5*s.* 7*d.*, and very often 5*s.* 8*d.* an ounce: 5*s.* 7*d.*, however, seems to have been the most common price. Since the reformation of the gold coin, the market price of standard silver bullion has fallen occasionally to 5*s.* 3*d.*, 5*s.* 4*d.*, and 5*s.* 5*d.* an ounce, which last price it has scarce ever exceeded. Though the market price of silver bullion has fallen considerably since the reformation of the gold coin, it has not fallen so low as the Mint price."

The Mint price being 5*s.* 2*d.* per ounce, there would be a loss in coining silver bullion equal to the difference between this price and the prices given

above; there was, therefore, no inducement to individuals to coin silver bullion at the Mint.

As soon as the silver bullion fell to a price which made it profitable for individuals to coin silver bullion at the Mint, the Government very wisely prohibited the coinage of silver money, and reserved this privilege exclusively to the State, as is shown by the following Acts of Parliament.

A. D. 1774: 14th of Geo. 3. c. 42., prohibits the importation of light silver coin of this realm from foreign countries into Great Britain or Ireland, and limits the payment of silver coin as a legal tender to 25*l.*; the silver coin to be a legal tender above that sum only according to its value by weight, after the rate of 5*s.* 2*d.* per ounce. This Act to continue in force till May, 1776, and from thence to the end of the next Session of Parliament.

A. D. 1798: 38th of Geo. 3. c. 59.; an Act to revive and continue until the 1st day of January, 1799, an Act passed in the 14th year of the reign of his present Majesty, chap. 42., on the 13th day of January, 1774, intituled, an Act to prohibit the importation of light silver coin of this realm from foreign countries into Great Britain or Ireland, and restrain the tender thereof beyond a certain sum, and to suspend the coining of silver (21st June, 1798); and prohibits any silver to be received to be coined, or any silver coined to be delivered.

A. D. 1799. The preceding Acts revived and made perpetual.

These are two important acts; the one limiting the payment in silver coin to 25*l.*, from the inconvenience of large quantities of light coin being introduced, but allowing the payment in silver coin by weight for any amount, at the rate of 5*s.* 2*d.* per ounce. The former act would be inoperative until the market price was below the Mint price; then the money dealers would coin their bullion into silver coin, wherewith to purchase more bullion to be converted into coin, and gain the difference. Then follows, in

1798, the act to prevent this, by prohibiting the coinage of any silver. These two acts provided a remedy for the evils complained of, but supplied no coin. The Government, at the late new silver coinage, rated the silver coins at 9 or 10 per cent. above their intrinsic value, and made them a legal tender only for 40*s*., and coined gold sovereigns and made the rateable exchange with the silver coins at 20*s*. to the sovereign. Of course no one could claim more than 20*s*. in exchange for the sovereign, as the silver coin was legal tender as far as 40*s*.; and no one could derive benefit from coining bullion into silver coin, as all were prohibited from coining silver.

P. 40.* In Lord King's "Thoughts on the Restriction of Payments in Specie," at the end of his pamphlet, are given tables of the course of exchange and prices of silver from 1789 inclusive to 1803. From these tables I find that in January, 1798, the price of silver bullion was 5*s*. 0½*d*. standard silver, and in February, 5*s*.: and that it varied in that year from 5*s*. to 5*s*. 1½*d*., 5*s*. 1*d*., and 5*s*. 0½*d*., in October, November, and December.

There would, therefore, be a profit in coining the bullion; and the Act recites that a small quantity of silver bullion had been brought to the Mint to be coined, and that there was reason to suppose that a still further quantity would be brought.

The Bank restriction was imposed by an order in council dated February 27th, 1797, and in April and May following the price of standard silver is quoted in these tables at 5*s*. 6*d*. It "rose rather suddenly from 5*s*. 4*d*. to 5*s*. 6*d*., probably in consequence of the apprehension of a discount on bank notes," † but it soon resumed the former low price, being quoted, June, July, and August, 5*s*. 1½*d*.; September, 5*s*. 1*d*.; and the three last months of that year, 5*s*. 0½*d*. No quotation is given for March. If Government

* "Thoughts on the Restriction of Payments in Specie at the Banks of England and Ireland." By Lord King. London, 1803.

† Lord King, p. 30.

had allowed private persons to coin silver at the Mint, the coins would have circulated at the rate of 5*s.* 2*d.* an ounce, which was the rate at which the Mint would have coined them; and they would have remained in circulation as long as the price of standard silver was below or about that price, and private people would have gained the difference between 5*s.* 1½*d.*, 5*s.* 1*d.*, and 5*s.* 0½*d.*, and 5*s.* 2*d.* per ounce; or rather the bullion dealers or traffickers in coin would have done so. And this coin being more valuable in coin than in bullion, would not have been melted; there would have been a gain equal to the seignorage to the money dealers; and when the price of silver rose to 5*s.* 4*d.* and 5*s.* 6*d.*, or much above 5*s.* 2*d.*, then this coin would have been melted and disappear. To prevent this inconvenience, and also that there may be no danger to the standard, or of the country being incommoded by too large a quantity of silver coin, when the coinage is attended with profit, it is indispensable that the State should alone have the privilege of coining all the ancillary coins.

Adam Smith (b. i. c. 5. v. i. pp. 55, 56.):—

"The silver coin still continues in the same worn and degraded state, as before the reformation of the gold coin. In the market, however, one and twenty shillings of this degraded silver coin are still considered as worth a guinea of this excellent gold coin."

"The reformation of the gold coin has evidently raised the value of the silver coin which can be exchanged for it."

P. 56.: —

"Before the reformation of the gold coin, the market price (of standard gold bullion) was always more or less above the Mint price. Since that reformation, the market price has been constantly below the Mint price. But that market price is the same, whether it is paid in gold or in silver coin. The late reformation of the gold coin, therefore, has raised not only the value of the gold coin, but likewise that of the silver coin, in proportion to gold bullion, and probably too in proportion to all other commodities; though the price of the greater part of other commodities, being influenced by so many other causes, the rise in the value of either gold or silver coin in proportion to them, may not be so distinct and sensible."

Adam Smith thinks it *probable* that the reformation

of the gold coin had raised the value of the silver coin, not only in proportion to gold bullion, but to all other commodities.

The silver coin was not raised in value in proportion to gold *bullion* — it was raised in value in proportion to the gold *coin*. It was the relation of the silver coin to the gold coin, being exchangeable at the rate of 21*s*. to the guinea, which raised its value, which identified its value with the gold coin, and therefore raised its value in the proportion of gold *coin* — not in proportion to gold *bullion* or any other commodities, but in proportion to the gold coin; and as a necessary consequence, in the same relation to gold bullion and other commodities *as gold coin.*

Adam Smith (b. i. c. 11. v. i. p. 292.): —

"Before the discovery of the mines of America, the value of fine gold to fine silver was regulated in the different Mints of Europe, between the proportion of one to ten and one to twelve; that is, an ounce of fine gold was supposed to be worth from ten to twelve ounces of fine silver. About the middle of the last century, it came to be regulated between the proportions of one to fourteen, and one to fifteen. That is, an ounce of fine gold came to be supposed worth between fourteen and fifteen ounces of fine silver. Gold rose in its nominal value, or in the quantity of silver which was given for it. Both metals sank in their real value, or in the quantity of labour which they could purchase, but silver sank more than gold. Though both the gold and silver mines of America exceeded in fertility all those which had ever been known before, the fertility of the silver mines had, it seems, been proportionably still greater than that of the gold ones."

It must be admitted that if any nation had a gold standard when the proportion of gold to silver was 1 to 12, *that gold* standard would be more valuable than a silver standard, when the proportion became in the market of the world 1 to 15. But if any writer had attempted to compare the prices of commodities at the two periods, during the one period a gold standard prevailing, and during the other a silver standard, he would have underrated the cost of commodities when the gold standard prevailed, by the proportion which 1 to 12 bears to 1 to 15. Adam

Smith (vol. i. p. 357.), in his statement of the prices of wheat in Windsor market from 1595 to 1764, does not distinguish when we had a silver standard and when we had a gold standard.

And he observes (b. i. c. 11. v. i. p. 271.):—

"The value of silver, therefore, seems to have risen somewhat in proportion to that of corn, during the course of the present century, and it had probably begun to do so even some time before the end of the last."

The following extract shows how small a profit will satisfy those who traffic in coins. Lord Liverpool (p. 207.): —

"In proof of this observation, I will lay before your Majesty two cases which I have taken from a Report of Sir Isaac Newton in 1717: — 'In the last year of the reign of King William, many louis-d'or of France, each of which, compared with our coins, was then worth but 17*s.* 0¾*d.*, were brought into England and were current here for 17*s.* 6*d.* Sir Isaac Newton, then the Master of the Mint, represented this circumstance to the Lords of the Treasury, and a proclamation issued, ordering that these louis-d'or should be current only at 17*s.*, and thereupon they were immediately brought to the Mint as bullion, and no less a sum than 1,400,000*l.* was coined out of the bullion they produced. In this case the advantage of 5¼*d.* per louis-d'or brought so great a number of them into the kingdom, and the loss of ¾*d.* per louis-d'or at most drove them out of circulation. At another time, moidores passed in the western parts of England for 28*s.*, and the country was full of them. The officers of the Mint represented to the Lords of the Treasury that these moidores were intrinsically worth only 27*s.* 7*d.*, and their Lordships ordered that the public receivers should take them only for 27*s.* 6*d.* The gentlemen of the country immediately complained that these moidores had all disappeared; so that a profit of 5*d.* per moidore brought them into the kingdom, and a loss of 1*d.* per moidore sent them all out again. From these two cases, it is evident that they who traffic in coins and who are concerned either in remitting money, or in melting the coins, will trade on so very small a profit, that it is very difficult to prevent the evils arising from this sort of traffic entirely; all that can be done is, to diminish the temptation as much as possible."

CHAPTER II.

COINS AND CURRENCY.

A SKETCH of the opinions entertained by some eminent writers on the coinage, may not be uninteresting.

The early French writers on money were of opinion that both gold and silver should be legal tenders in the payment of debt; that the debtor who could not pay in one kind of money might pay in the other.

In the "Dictionnaire de Bazinghen," vol. ii. p. 553, "Proportion entre l'or et l'argent," is the following quotation from Boizard, who died in 1602.

Boizard, p. 46. "La proportion de ces métaux," &c.:—

"The proportion of these metals should be determined with so much equality, and the price of the gold and silver should have such a relation to each other, that the one cannot be in proportion cheaper than the other, lest it should be carried away (enlevé) on account of the profit which might result from it, which would occasion great inconvenience and a perpetual derangement. It is for this reason that gold and silver have been at all times and in all places (de tout tems et en tous lieux) valued the one by the other, in order that he who had not gold might pay in silver, and he who had not silver might pay in gold.

It is the different proportions observed by Sovereigns between their coins of gold and silver, which often occasions the transport of the coins of one country to another, whatever prohibitions may be promulgated by ordinances, and whatever precautions may be adopted to prevent it. Hence the raising the price of coins."

Le Blanc, who published his "Traité historique des Monnoies de France" * in 1690, announces the following maxims.

P. 330:—

L'on n'empêchera jamais le transport des monnoies d'un état à moins qu'on n'y défende le cours des espèces étrangères, et qu'on ne garde une proportion entre l'or et l'argent égale, ou approchant de celle de ses voisins: ces deux maximes bien ob-

* "Traité historique des Monnoies de France depuis le Commencement de la Monarchie jusques à present," par M. Le Blanc.

servées sont capables d'entretenir l'abondance des monnoies d'or et d'argent dans un royaume: les Anglois se sont toujours bien trouvés de les avoir pratiquées: on leur rend cette justice que peu de nations entendent mieux cette matière que la leur."

"The carrying away of the coins of the state will never be prevented, unless the circulation of foreign coins be prohibited, and a proportion kept between gold and silver equal to or approaching to that of the neighbouring states. These two maxims being well observed are capable of keeping in a kingdom an abundance of gold and silver money. The English have always found their advantage in practising them: we do them this justice, that few nations understand this matter better than they."

It will be observed that the end to be attained was twofold: first, to establish such a proportion in the exchangeable value of the gold and silver coins as should make the payment by one as valuable as the payment by the other; and secondly, to establish such a proportion as should correspond, or nearly so, with the proportion fixed by the neighbouring states. The first provision was to prevent all traffic in the coins of the national circulation at home,—to prevent one coin being melted to purchase the other; the silver coin or the gold coin in the domestic circulation. The second provision was to prevent the transport of either coin to foreign states.

The attempt to establish a permanent equality in the value of gold and silver coins by a rateable proportion is utterly vain; the value of these metals depending upon the productiveness of the respective mines of gold and silver, and the cost and labour of procuring each; as the cost of production varies in each, together with the supply and demand, so will the relative value.

Bishop Burnet, in his "History of his Own Time" (Edinburgh, 1753, 6 vols.), vol. iv. p. 204., gives the following account of the coin in 1695: —

"We had two sorts of coin, the one was milled and could not be practised on, but the other was not so, and was subject to clipping, and in a course of some years the old money was every year so much diminished, that it at last grew to be less than the half of the original value. Those who drove this trade were as much enriched, as the nation suffered by it.

Guineas, which were equal in value to twenty-one shillings and sixpence in silver, rose to thirty shillings; that is to say, thirty shillings sunk to twenty-one shillings and sixpence."

P. 234.: —

"The state of the coin was considered, and there were great and long debates about the proper remedies: the motion of raising the money above its intrinsic value, was still much pressed. All came in the end to a wise and happy resolution, of recoining all the specie of England, in milled money. All the old money was ordered to be brought in, in public payments or loans to the Exchequer, and that by degrees; first, the half-crown pieces, and the rest of the money by a longer day. Money of a bad alloy, as well as clipt money, was to be received; though this was thought an ill precedent, and that it gave too much encouragement to false coiners; yet it was judged necessary upon this occasion, and it gave a present calm to a ferment that was then working all England over. Twelve hundred thousand pounds were given, to supply the deficiency of the bad and clipt money; so this matter was happily settled, and was put in a way to be effectually remedied; and it was executed with an order and a justice, with a quiet, and an exactness, beyond all men's expectation. So that we were freed from a great and threatening mischief, without any of those effects that were generally apprehended from it."

The result proved this matter not to be so "happily settled" as Bishop Burnet supposed.

P. 255.: —

"Above five millions of clipt money was brought into the Exchequer; and the loss that the nation suffered by the recoining of the money amounted to two millions and two hundred thousand pounds. The coinage was carried on with all possible haste, about eighty thousand pounds were coined every week; yet this was still slow, and the new money was generally kept up, so that for several months little of it appeared. This stop in the free circulation of money put the nation into great disorder; those who, according to the Act of Parliament, were to have the first payments in milled money for the loans they had made, kept their specie up, and would not let it go but at an unreasonable advantage."

Lord Liverpool, p. 79.: —

"When the recoinage of the silver coin was completed (in 1699), the price of the silver bullion did not even then fall so as to be nearly the same as the Mint price; and the guinea, the value of which in currency had been reduced by an Act of Parliament to 22*s.*, became current, without any interposition of public authority, at 21*s.* 6*d.*; but it did not fall in so great a degree as it ought

to have fallen, according to the relative value of gold to silver at the market. The consequence was, that the new silver coins were immediately melted down and exported; and though 6,882,908*l.* 19*s.* 7*d.* in tale had been lately coined, the most considerable part of this great sum, in the course of 18 years, disappeared, and the public were deprived of the use of it; so that Sir Isaac Newton, in his report of the 21st Sept. 1717, says: — 'That if silver money should become a little scarcer, people would, in a little time, refuse to make payments in silver, without a premium.' Another consequence resulted from the same cause, — very little silver bullion was brought to the Mint to be coined.

"From the year 1699, when the general recoinage was completed, to the year 1717, no more than 674,831*l.* 15*s.* 9¼*d.* in tale was coined; and of this sum 320,372*l.* 12*s.* were ancient Scottish silver coins, or foreign coins permitted to be current in Scotland before the Union, which were recoined at Edinburgh, into coins of the English standard, by virtue of the Treaty of Union. Two other parts of this sum, that is, 78,811*l.* 6*s.*, coined in the year 1709, and 76,780*l.* 16*s.*, coined in the year 1711, were principally made of plate, brought to the Mint in consequence of special encouragements then given. From the plate so brought in, 144,000*l.* was converted into coin, and only 11,592*l.* 2*s.* was coined from silver bullion brought into the Mint in the usual course, during these two years; so that the natural or ordinary coinage of silver, during this period of eighteen years, amounted to no more than 210,459*l.* 3*s.* 9¼*d.*"

P. 85.: —

"And it appears, by the accounts presented by the officers of the Mint, that from the year 1717 to the end of the last century, that is, in a period of 83 years, no more than 584,764*l.* 17*s.* 5½*d.* in tale of silver has been coined: and from the year 1760 to the end of the same century, that is, in a period of 40 years, no more than 63,983*l.* 15*s.* 5*d.* in tale has been coined; and the silver currency has gradually fallen into its present state of imperfection."

In a note, p. 85.: —

"A considerable part of this silver coin (63,983*l.* 15*s.* 5*d.*) was made from the silver brought into the kingdom by Lord Anson, taken in the 'Acapulco' ship. Other parts were produced from silver taken in other prizes."

P. 82.: —

"In this state were the coins of this kingdom in the year 1717, when the ministers of George I., alarmed at the great diminution of the silver coins, which had been made in such great quantities not twenty years before, took the subject into consideration. They applied to Sir Isaac Newton, then Master of the Mint, for his advice. The subject was referred to him, and he reported 'that

the principal cause of the exportation of the silver coin was, that a guinea, which then passed for 21*s*. 6*d*., was generally worth no more than 20*s*. 8*d*., according to the relative value of gold to silver at the market; though its value occasionally varied, and it might be worth something less, whenever there was a great demand for the export of silver, particularly to the East Indies; and perhaps something more whenever a plate fleet was just arrived from Spanish America.' He then suggested, 'that 6*d*. should be taken off from the value of the guinea, in order to diminish the temptation to export and melt down the silver coin; acknowledging, however, that' 10*d*. or 12*d*. ought to be taken from the guinea, in order that gold may bear the same proportion with the silver money in England, which it ought to do by the course of trade and exchange in Europe.'"

It appears from the preceding extracts from Lord Liverpool's "Treatise," that "the most considerable part of 6,882,908*l*. 19*s*. 7*d*. was melted down and exported in eighteen years." The new coinage was completed in 1699, and during the following eighteen years the coins were disappearing. This would bring us to about 1717, and Sir Isaac Newton recommended that year that the guinea should be valued at 21*s*.; but the silver in 21*s*. was more than the guinea was worth, by his own acknowledgment, by 4*d*. or 6*d*. each, according to the relative value of gold to silver. The consequence was, that the melting and exportation of the silver coins continued, and the place of the heavy silver coins was supplied by lighter coins. We find by the "Extract" that very little silver was brought to the Mint to be coined: in the eighty-three years of the last century, only 584,764*l*. 17*s*. 5½*d*.; and in the last forty years of the last century, only 63,983*l*. 15*s*. 5*d*.; and the silver coin gradually fell to the state of imperfection in which it was when Lord Liverpool wrote (in 1805). The wonder is, that any should have been brought, as it did not find the best market in the Mint; and it is stated that it was done principally by the government.

Lord Liverpool, p. 84.: —

"But the Lords of the Privy Council, in executing this measure, did not conform to the principle adopted by Parliament, in the 7th

and 8th of William III., of leaving the guinea and other gold coins to be paid or received at any value under the rates by them limited. In the proclamation issued on this occasion, it was not simply said that each guinea *should not pass for more than* 21*s.*, and the other gold coins in proportion; but it is expressly declared, *that the said respective pieces of coined gold shall be current at the rates and values then set upon them.* By this injunction, the guinea and all other gold coins became legal tender at the rates therein declared. They could no longer vary in their value, according to the relative value of gold to silver, as they had varied since the year 1663."

And in a note: —

"In all the Mint Indentures from the 15th Charles II., the guinea had been called a twenty-shilling piece, and it was ordered to pass at that rate. But on this occasion a new indenture was made, dated 6th May, 1718, in which this piece of gold coin was called a guinea, or a twenty-one shilling piece, and it was ordered to pass for twenty-one shillings sterling."

It will be observed that, *by law*, 21*s.* were now made equivalent to a guinea in exchange; and as the *silver* coins became, by wearing or fraud, or by false coiners, inferior to the guinea in intrinsic value, these coins would find their best market in the circulation, in exchange for the guinea; they would represent fractional parts of the guinea, each shilling would be worth the $\frac{1}{21}$ part of a guinea, — would not be a *silver* coin, but a *token.* The money-dealers, or traffickers in coins, had done that fraudulently and in excess, which the government might have done equitably; the silver coin was debased perhaps one-third or one-half, instead of being rated 6 or 7 per cent. above its relative value to gold. But still, for nearly one hundred years, this bad or light coin circulated. No traffic existed between gold and silver coins *endangering the standard* after the heavy silver coins disappeared; and although complaints were made, that the silver coin was so imperfect, and an Act of Parliament was passed to prevent the excessive importation, yet the *standard* was in a more wholesome state than when the silver coin was rated below its intrinsic value relatively to gold: in the one case, it would certainly be melted or exported, and in

the other case, it would as certainly remain in the kingdom.

Sir Isaac Newton did not succeed in retaining the good silver coin, by reducing the price or exchangeable value of the guinea to 21*s*., when it was only worth, in silver bullion, 20*s*. 8*d*.: the money-dealers would not cease to export the coin if 4*d*. or 6*d*. were to be gained by the exportation; and they would not bring silver bullion to be coined if they were to lose 4*d*. or 6*d*. on every guinea. Very little silver was coined, and the scarcity of silver coin continued, of the Mint quality or standard; and the debased and bad coins remained as tokens, as at present, but of worse quality, till the time of the recoinage, on the resumption of cash payments after the Bank restriction, when the reformation of the silver coin was happily accomplished, with complete success.

Without presuming to question the propriety of the recommendation of the Master of the Mint, *under the circumstances*, it is clear that Sir Isaac Newton did not succeed in retaining the good silver coin. There is no reason to believe that it was his intention either to *change the standard* from silver to a gold standard, or to *raise the standard:* I submit whether both these consequences were not the result.

When the guinea was sold for twenty-one shillings and sixpence, the standard was silver, and the guinea was merchandise: it was the heavy or good silver coin that was exported, and the greater part of this had disappeared; in the then state of the silver coin, the guinea sold for 21*s*. 6*d*. When, by law, the guinea was declared to be a legal tender in the payment of debt at the rate of 21*s*. to the guinea, the 21*s*. and the guinea became of equal value as coin; but the heavy or good shillings were worth more than the guinea, and they disappeared; the light coins would find their best market in exchange with the guinea; each shilling would be the $\frac{1}{21}$ part of the guinea; the guinea would measure the value of the shilling, and the guinea became the only *one*

measure; and the standard gradually became a gold standard.

When the guinea was sold for 21*s.* 6*d.* at the market, the silver coins were the standard: the guinea and 21*s.* 6*d.* were of equal value, were the same thing in currency; the pound of 20*s.* was 20 parts of 21*s.* 6*d.*, as people could pay in guineas at this rate, or in silver coin: — when the guinea was declared a legal tender at the rate of 21*s.* to the guinea, the pound (or 20*s.*) was twenty parts of 21*s.* instead of twenty parts of 21*s.* 6*d.*, each shilling was $\frac{1}{21}$ instead of $\frac{1}{21.6}$ or $\frac{2}{42}$ instead of $\frac{2}{43}$: the standard was raised 1 in 43, or more than 2 per cent.; creditors were benefited, and debtors suffered to this extent.

I submit this reasoning to those who may interest themselves in the inquiry; if I am correct, it shows how much caution is required in regulating the currency of coins.

Lord Liverpool (p. 65.) gives some curious instances* of the extent to which the traffic in coins may be carried, in spite of severe penalties: —

"By a decree in the Star Chamber Court on the 7th February, 1636, seven persons convicted of culling out the most weighty pieces of the coin of this realm, and melting them down, and exporting the same, as well as foreign coin and bullion, to foreign parts, were fined 8100*l.*, and committed prisoners to the Fleet till they paid the fines so set upon them. It is asserted that individuals had, by those practices, made a profit of 7000*l.* or 8000*l.* per annum. There were several other proceedings for offences of this nature in the Court of Star Chamber, and some men of great consideration in the commercial world, who were accused of these practices, received the king's pardon.

"But notwithstanding the proclamations before mentioned, and the severities exercised for enforcing the execution of them, it appears from a writer who lived in those times, that silver, either in foreign coin or bullion, was sold during the whole of this reign at 1*d.*, 2*d.*, 3*d.*, &c., per ounce above the Mint price, and he alleges that 30,000*l.* in sixpences, shillings, and half-crowns, were melted

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* Rushworth's "Historical Collections," vol. ii. p. 350.

"Violett's Humble Declaration." 4to. 1643, p. 23.; "Violett's Proposals to Oliver Cromwell." Folio, 1656, p. 89.

Locke doubted that farthings should be even of a baser metal (p. 49. vol. ii.): —

"Farthings made of a baser metal may on this account too deserve your consideration. For whatsoever coin you make current above the intrinsic value, will always be damage to the public, whoever get by it; but of this I shall not at present enter into a more particular inquiry; only this I will confidently affirm, 'That it is the interest of every country, that all the current money of it should be of one and the same metal; that the several species should all be of the same alloy, and none of a baser mixture; And that the standard, thus once settled, should be inviolably and immutably kept to perpetuity.' For whenever that is altered, upon what pretence soever, the public will lose by it."

The object of Locke was to establish, according to the intrinsic value of each coin, a measure of value, and he would therefore have all the coins made of the same metal. This would be very inconvenient and almost impracticable with respect to the minute silver coins: and it would be impossible with respect to gold coins, if gold were the standard of value: besides this serious disadvantage attending the coins being all of one precious metal, and rated according to their intrinsic value; all the coins would be liable to depreciation from wearing or fraud, and the heavy coins of standard weight would be melted or exported; this disadvantage now only affects, in this kingdom, the legal tender or gold coin, and may be prevented by weighing those coins.

Locke (p. 93.): —

"This loss is wholly owing to the permitting clipped money in payment; and this loss we must unavoidably suffer whilst clipped money is current amongst us. — And this robbing of England of near one-third of the value of the commodities we send out, will continue whilst people had rather receive guineas at 30*s*. than silver coin (no other being to be had) that is not worth half what they take it for. I say clipped money, however bad it be, will always pass whilst the King's receivers, the bankers of any kind, and at last the Exchequer, takes it: for who will not receive clipped money, rather than have none for his necessary occasions, whilst he sees the great receipt of the Exchequer admits it; and the Bank and goldsmiths will take it of him, and give him credit for it, so that he needs keep no more of it by him than he pleases?"

Lord Liverpool (p. 72.): —

"The old hammered coins, which had been most reduced, began at this time to be exchanged for such of the remaining silver coins as were more perfect, and less clipped, at a premium. The first measure, therefore, which the Parliament adopted, was to pass an Act *, forbidding the receiving or paying of any *broad silver money*, or silver money unclipped, of the coin of this kingdom, for more than its nominal value in tale. But this measure produced another evil; for, in consequence of it, all the perfect and unclipped silver coins began to be hoarded, so that they appeared no longer in circulation †; and as the Parliament had not forbidden the exchange of the deficient or clipped silver coins for guineas, or other gold coins, the former were then exchanged for the gold coin; and the guinea, which had passed before generally for 21*s.* 6*d.* or 22*s.*, began now to pass for 30*s.*; and it would have risen to a greater value, if the officers of the Exchequer, and the receivers of the public revenue had not refused to receive it in payment at a higher rate. To remedy this last evil, the Parliament passed two Acts, mentioned in a former part of this letter, forbidding first the currency of guineas at any higher rate than 26*s.* each; and afterwards at any higher rate than 22*s.* each. They also passed an Act ‡ suspending for a limited time the coining of guineas; and as it was foreseen that guineas, either such as had been formerly remitted to foreign countries, or had been counterfeited abroad, would be imported in great quantities, the Parliament at the same time prohibited the importation of guineas."

It appears by 7 & 8 Will. 3. cap. 10. s. 18. —

"That from and after the five and twentieth day of March, 1696, no person shall receive, take, or pay any guineas at a higher rate than twenty-six shillings for each guinea."

And by the Act 7 & 8 Will. 3. cap. 19. s. 12. —

"It was enacted that from and after the tenth day of April, 1696, no person shall utter or receive any guineas at a higher rate than twenty-two shillings for each guinea."

It appears to me that if this Act made the silver coins a legal tender at the rate of 22*s.* in exchange for the guinea, it might have the effect of introducing the gold standard, whenever the silver coins

* 6 & 7 Will. 3. c. 17. s. 2.

† See Mr. Lowndes' Report, p. 114. See also Mr. Locke's Essay.

‡ 7 & 8 Will. 3. c. 10. s. 18. 7 & 8 Will. 3. c. 19. s. 12. 7 & 8 Will. 3. c. 13.

should be so depreciated, by wearing or other means, as to render their value as coin more valuable than as silver; whenever their nominal price of 22*s.* to the guinea should exceed their intrinsic value as bullion; as was the case when the silver coins, which were depreciated to half their value, were received by the officers of the Exchequer, &c., at the rate of 30*s.* to the guinea, and as when the deficient silver coins were made a legal tender in exchange for the guinea at 21*s.* — the silver shillings then became tokens or merchandise, in one case of the value of $\frac{1}{30}$, and in the other of $\frac{1}{21}$ of the guinea — and gold became the standard of value: in this view, if correct, the distinction is important, whether the value or price of the gold coin be set *under*, or *above* the market price — if *under*, the silver standard is preserved, if *above*, it may be changed to the gold standard; care should be taken that the value set upon the gold coin be so much *under* the market price, as to insure the market price not reaching it, if the silver standard is to be preserved.

The Act fixing the price of guineas at 26*s.* each only continued in force from the 25th March, 1696, to the 10th April, 1696, or sixteen days.

It does not appear that any Act of Parliament or Proclamation fixed the rate of guineas at 30*s.*: the Exchequer fixed this rate by receiving the guineas at this price in payment of taxes, debts, &c., and, as a consequence, the bankers.

We shall find, on examining the opinions of Lord Liverpool, that he supposed that the silver coin would be the measure of property for small purchases, not exceeding the amount for which it should be a legal tender.

Lord Liverpool* (p. 14.): —

"Certain, however, as the principle is, that the money or coins of any country which are to be the principal measure of property

* A Treatise on the Coins of the Realm, in a Letter to the King, by Charles, Earl of Liverpool. Oxford, 1805, 4to.

can be made of one metal only; the convenience of traffic necessarily requires, that in rich and commercial countries there should be coins made of several metals, adapted to the several sorts of purchases or exchanges for which they are intended. Coins made of gold alone, or of silver alone, in such countries will not answer all the purposes of traffic. Coins of gold are not well adapted for the retail trade, in which sort of traffic the greatest number of the subjects of every country are principally concerned; and coins of silver are too bulky for larger payments, and are in that respect inconvenient. It is necessary, therefore, that in commercial countries there should be coins made of different metals. And if the coins which are the principal measure of property and instrument of commerce can only be made of one of these metals, the inferior coins made of other metals must be legal tender only in a limited degree, as the sovereign shall direct; and so far only they are the measure of property; and if they are accepted in payment for a larger sum, with the consent of the receiver (as may sometimes be the case), they may then be said to be the representatives of the coins which are the principal measure of property, and their value must be made to correspond with it, as accurately as the nature of the subject will admit. It is by adopting this rule or principle, that the second and third of the imperfections before stated will be avoided, or at least the ill effect resulting from them will be diminished as much as possible. This is the highest state of perfection to which any system of coinage can, in my opinion, be brought; and it is sufficiently perfect to answer all the purposes of exchange and commercial intercourse. But it must be confessed that, notwithstanding all the endeavours of men of the greatest talents and most acute understandings, such is the nature of this business, that absolute perfection and complete accuracy, in practice at least, cannot be attained."

The imperfections enumerated by Lord Liverpool are: 1st. The variation in the value of gold and silver, relatively to commodities,—such as the fall in the value of gold and silver in consequence of the discovery of the American mines. The 2nd imperfection is from the variation in the relative value of these metals to each other. 3rd. The difficulty of the sovereign adjusting the relative value of the coins in exchange with each other, according to the real variation. The 4th imperfection is the gradual wear of the coins made of either of these metals.

Lord Liverpool is of opinion that "the money or coins which are to be the principal measure of property and instrument of commerce can be made of one metal only;" "the inferior coins made of other metals must

be legal tender only in a limited degree, as the Sovereign shall direct; and so far only they are the measure of property."

P. 157. :—

"By taking the charge of workmanship out of these silver coins, they will be retained within the kingdom for the purposes of internal traffic, for which they are intended, in like manner as the copper coins are at present; for no foreign merchant will receive his balance in coins of this description, in payment of any sum greater than that for which they are made legal tender, if there is not a want of a sufficient quantity of gold coins, as the intrinsic value of the silver coins will be less than their nominal value. And it is further certain, that, in such case, the nation will be no longer exposed to the evils arising from a conflict between coins made of different metals, or to the iniquitous practice of exporting them, whenever profit can be made thereby; or to that of melting them down, for the purpose of converting them into plate, which frequently happened in the course of the last century, whenever the price of either gold or silver bullion at the market rose above the Mint price.

"The value of the metal of which these silver coins are to be made, should be estimated, not according to the actual price of such metal at any given time, but according to the average price which such metal has borne for a certain number of years past, or which it is likely to bear in future in the market. For as these silver coins are to represent those of gold in small payments, they should be made to represent them, not in any one time, but for a continued space of time, as truly and as correctly as the fluctuating value of the two precious metals will permit. It has already been shown that when coins are made of two different metals, and intended to be current according to their intrinsic value, it is impossible that the sovereign should follow with sufficient accuracy the various fluctuations and changes which, in a short time, happen in the relative prices of these metals at the market, and thereby regulate the nominal value, at which the different coins made of these metals, should at all times be current. Experience has proved that every attempt for this purpose has been unsuccessful. It follows, therefore, that the metal of those coins which are intended to represent those of gold in small payments should be estimated according to a fair average of what is likely to be its value in future at the market, with due attention to every circumstance which is likely to influence the price of it, and to the rate at which this metal is estimated in the mints of foreign countries. Coins of this description ought to be so made that they may truly represent, but not rival, that coin which is to be the standard coin, or ever come into competition with it."

But surely it would be more difficult to ascertain

what is likely to be the average relative value of two metals, in *future*, than to follow the fluctuations as they occur: nor is this exactness required.

Lord Liverpool speaks of a *principal measure* of property; whereas there is only *one* measure of property; the secondary coins should be considered simply as *tokens* or *merchandise;* not in any degree as *a measure of value or property.*

It was this opinion, that the secondary coins are "a measure of property, as far as they are a legal tender," which caused the anxiety shown in Lord Liverpool's Treatise, that these coins should be so nicely adjusted in value to the legal tender coin, the principal measure of property, and which induced him to observe* (p. 157.), "Coins of this description ought to be so made, that they may truly represent, but not rival that coin, which is to be the standard coin, or ever come into competition with it." But this exactness is not necessary: these coins do not derive their value from merely "representing" the standard coin; but, from being *by law*, exchangeable with this standard coin, at more than their intrinsic value, and thereby finding, as merchandise, their most profitable market in their exchange with this coin; and being, thus, by the rule of private interest, confined to the circulation: neither is it necessary "to have regard to the rate at which this metal is estimated in the mints of foreign countries," for the purpose of determining the rate of exchange between the ancillary coins and the standard coin; the circulation of all foreign coins being prohibited.

P. 172.: —

"It is extraordinary that any one should suppose that the proposed new silver coins will not pass in currency at as high a nominal value as the very defective silver coins now in circulation; for they will exceed them in intrinsic value by at least one-third; and though these new silver coins may contain a small proportion of silver less than what is required by the present Mint

* p. 36.

Indenture, yet the difference in weight will be very inconsiderable, probably not more than is occasioned by wearing in a very small space of time. Their intrinsic value, consisting of metal and workmanship, will be equal to their nominal value, estimating the value of the silver they contain at a fair average."

Lord Liverpool* (p. 172.) thinks that the workmanship would add to the value of the coins in the national circulation, although not in foreign countries; and that "their intrinsic value, consisting of metal and workmanship, will be equal to their nominal value, estimating the value of the silver they contain, at a fair average." If this were the case, if "their intrinsic value" were equal to their "nominal value," in virtue of the workmanship and metal, it might be a dangerous approximation to the value of the legal tender or standard coin, even in the home market: but I conceive the workmanship would add nothing to the value of the coins in circulation: a deduction *from the weight*, on this account, would be so far a security for insuring the circulation of the ancillary coins to the home market, but not on the principle of increasing but of diminishing their value: it being the essential principle that the intrinsic value should not equal the nominal value. Lord Liverpool appears to have been too apprehensive of the danger from false coiners; as the expense of coinage and the risk of punishment would be the same, whether the counterfeit be in silver or base metal, there seems little probability that the secondary coins would be counterfeited in *silver*, at a profit of 7 or 8 per cent., when the profit would be perhaps 80 per cent. or upwards, if counterfeited in base metal.

P. 78.: —

"Mr. Lowndes says, that the guinea then passed at 30*s*., with the almost *unanimous consent and agreement of the common people;* and he adds *that there was no other visible reason* for this

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* p. 36.

extraordinary rise in the value of the gold coins above the price at which silver bullion then sold, except the danger and vexation which the people had experienced from every money transaction in the clipped and deficient silver coins."

Lord Liverpool gives this opinion of Mr. Lowndes, attributing so much to the "vexation" and "consent" of the common people, without offering any other solution; and in the following extracts, he appears himself to have entertained the same opinion.

P. 81:—

"It is evident that, during the late recoinage (in the reign of King William III.), the common people had become accustomed to the use of the gold coins; and the reason which induced them still to prefer them was, perhaps, the convenience of making large payments in coins of that metal."

P. 119:—

"After this recoinage (in the reign of King William III.), the gold coins passed in payment at a higher value than that at which they were still rated in the Mint Indenture, or than the relative value of gold to silver at that time would justify; not, however, by authority of government, but by the general consent of the people."

Lord Liverpool seems unable to account for the deficient silver coins circulating at their nominal value.

P. 79:—

"Whatever may have been the causes of these strange incongruities in the value of the gold and silver coins, and of the price of bullion, with reference to these coins, as before stated, they serve at least to prove, that the events, which then happened, by no means corresponded with the conclusions, which, in Mr. Locke's opinion, resulted from the principles laid down by him, and on which he so much relied. They afford, also, strong reason to infer, that there are other causes which may sometimes influence the value of coins, while they are current only within the realm, as well as the price of the precious metals in reference to them, besides the intrinsic value of the metal in such coins."

And in a note, p. 79., he adds:—

"There cannot be a stronger proof of the truth of this observation, than that which is afforded by the currency of the present deficient silver coins, which now circulate at their nominal value, and even sometimes bear a premium, though they are deficient to the degree that will be stated hereafter."

However great "the vexation of the people," may not these "strange incongruities" mentioned by Lord Liverpool, be accounted for on the principle, that the shillings were tokens or fractional parts of the guinea when exchanging with the guinea at the rate of 30*s*., each shilling being the $\frac{1}{30}$ of the guinea; and equally tokens, when the deficient silver coins exchanged with the guinea at 21*s*., each shilling being $\frac{1}{21}$ of the guinea—the shilling in both cases being in no degree a measure of value—the 30*s*. in one case and the 21*s*. in the other being greatly inferior in intrinsic value to the guinea, but the officers of the Mint and the receivers of the public revenue in the one case (Lord Liverpool *, p. 72.) receiving the clipped shillings at the rate of 30 shillings to the guinea, and in the other case the deficient silver coins being exchangeable by law, at the rate of twenty-one shillings to the guinea?

Speaking of the little temptation there would be to counterfeit the new silver coins, which would be so nearly of the same value as the gold coins, he adds, pp. 168. and 169.:—

"But if it should be thought necessary, for the purpose of preventing this evil, to employ any further guard or restriction, I will submit to your Majesty whether it may not be advisable that the legislature should vest in your Majesty, or such others as may be authorised by your royal licence (these will probably always be the Directors of the Bank of England), the sole right of carrying silver to your Mint to be coined; your Majesty will thus have it in your power to limit and regulate the quantity of silver coins, which may at any time be sent into circulation; but I beg to be understood that I do not mean by this restriction (if it should be thought proper to adopt it) that silver coins of every description should not be sent in great plenty into circulation: it is highly important for the convenience of your people, particularly those of the lower classes, that they should at all times be current in great plenty."

It will be observed that Lord Liverpool does not make it a *necessary condition*, that the privilege of having silver coined should be vested exclusively in

* p. 33.

the Sovereign; nor does he show how the counterfeiting the silver coins would be prevented, by limiting or regulating the quantity which may at any time be sent into circulation.

By the present coinage in Great Britain, we have accomplished that which the Court of the Mint (*la Cour des Monnoyes*) in France propounded, as the desideratum in their celebrated remonstrance to the King of France, Henry III., and the States-General assembled at Blois. We have taken from the people not only the *power* but the *will* to infringe the law.

Le Blanc, p. 343.:—

"Le principal point doncques où il faut travailler, est de trouver les moyens que l'Ordonnance qui sera faite soit inviolable et gardée, ôtant au peuple le pouvoir, et même, s'il est possible, le vouloir, de plus la transgresser et enfreindre."

"The principal point then which we should labour to attain, is to find the means by which the 'ordonnance' which shall be made shall be inviolable and kept; taking from the people the power, and even, if it be possible, the will, any more to transgress or infringe it."

CHAPTER III.

ON SEIGNORAGE.

Adam Smith (b. ii. c. 5. v. i. p. 60.): —

"A small seignorage or duty upon the coinage of both gold and silver would probably increase still more the superiority of those metals in coin, above an equal quantity of either of them in bullion. The coinage would, in this case, increase the value of the metal coined, in proportion to the extent of this small duty; for the same reason that the fashion increases the value of plate in proportion to the price of that fashion. The superiority of coin above bullion would prevent the melting down of the coin, and would discourage its exportation. If, upon any public exigency, it should become necessary to export the coin, the greater part of it would soon return again of its own accord. Abroad, it could sell only for its weight in bullion. At home, it would buy more than that weight. There would be a profit, therefore, in bringing it home again. In France a seignorage of about eight per cent. is imposed upon the coinage, and the French coin, when exported, is said to return home again of its own accord."

Adam Smith (b. iv. c. 6. v. ii. p. 378.):—

"Were the private people, who carry their gold and silver to the Mint, to pay themselves for the coinage, it would add to the value of those metals in the same manner as the fashion does to that of plate. Coined gold and silver would be more valuable than uncoined. The seignorage, if it was not exorbitant, would add to the bullion the whole value of the duty; because the government, having everywhere the exclusive privilege of coining, no coin can come to market cheaper than they think proper to afford it. If the duty was exorbitant indeed—that is, if it was very much above the real value of the labour and expense requisite for coinage—false coiners, both at home and abroad, might be encouraged, by the great difference between the value of bullion

and that of coin, to pour in so great a quantity of counterfeit money, as might reduce the value of the government money. In France, however, though the seignorage is eight per cent., no sensible inconveniency of this kind is found to arise from it. The dangers to which a false coiner is everywhere exposed, if he lives in the country of which he counterfeits the coin, and to which his agents or correspondents are exposed if he lives in a foreign country, are by far too great to be incurred for the sake of a profit of six or seven per cent."

Adam Smith (b. iv. c. 6. v. ii. p. 380.):—

"A seignorage will, in many cases, take away altogether and will, in all cases, diminish the profit of melting down the new coin. This profit always arises from the difference between the quantity of bullion which the common currency ought to contain, and that which it actually does contain. If this difference is less than the seignorage, there will be loss instead of profit. If it is equal to the seignorage, there will neither be profit nor loss. If it is greater than the seignorage, there will indeed be some profit, but less than if there was no seignorage. If before the late reformation of the gold coin, for example, there had been a seignorage of five per cent. upon the coinage, there would have been a loss of three per cent. upon the melting down of the gold coin. If the seignorage had been two per cent., there would have been neither profit nor loss. If the seignorage had been one per cent. there would have been a profit but of one per cent. only, instead of two per cent. Wherever money is received by tale, therefore, and not by weight, a seignorage is the most effectual preventive of the melting down of the coin, and, for the same reason, of its exportation. It is the best and heaviest pieces that are commonly either melted down or exported; because it is upon such that the largest profits are made."

P. 381.:—

"Before the late re-coinage, when the gold currency of England was two per cent. below its standard weight, as there was no seignorage, it was two per cent. below the value of that quantity of standard gold bullion which it ought to have contained. When this great Company (the Bank of England), therefore, bought gold bullion in order to have it coined, they were obliged to pay for it two per cent. more than it was worth after the coinage. But if there had been a seignorage of two per cent. upon the coinage, the common gold currency, though two per cent. below its standard weight, would, notwithstanding, have been equal in value to the quantity of standard gold which it ought to have contained; the value of the fashion compensating, in this case, the diminution of the weight. They would, indeed, have had the seignorage to pay, which being two per cent., their loss upon the whole trans-

action would have been two per cent., exactly the same, but no greater than it actually was."

It will be seen, by the preceding extracts, that Adam Smith was of opinion * (p. 60.), that "a small seignorage or duty upon the coinage of both gold and silver," would "increase the value of the metal coined, in proportion to the extent of this small duty, for the same reason that the fashion increases the value of plate in proportion to the price of that fashion." And in proof of this theory he adduces the instance of the French coinage:—"In France, a seignorage of about eight per cent. is imposed upon the coinage, and the French coin, when exported, is said to return home again of its own accord."

He also adduces † (p. 378.) another reason:—"The seignorage, if it was not exorbitant, would add to the bullion the whole value of the duty, because the government having everywhere the exclusive privilege of coining, no coin can come to market cheaper than they think proper to afford it;" and he again compares the value conferred on bullion to the value conferred by the fashion upon plate, and gives the instance of the French coinage.

Although Adam Smith mentions a *small* seignorage, yet he says ‡ (p. 380.), "If, before the late reformation of the gold coin, there had been a seignorage of *five per cent.* on the coinage," &c.

He also observes (p. 381.):—"Before the late recoinage, when the gold currency of England was two per cent. below its standard weight," &c.:—

"But if there had been a seignorage of two per cent. upon the coinage, the common gold currency, though two per cent. below its standard weight, would, notwithstanding, have been equal in value to the quantity of standard gold which it ought to have contained; the value of the fashion compensating, in this case, the diminution of the weight."

These opinions and reasonings fully express the

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* p. 42. † p. 42. ‡ p. 43.

conviction of this celebrated author, that a charge for seignorage, if not exorbitant, conferred a value upon coin equivalent to an increase of weight, and would supply the deficiency of quantity when the coin was, by wearing, below the standard weight.

And he concludes* (p. 380.):—

"Wherever money is received by tale, therefore, and not by weight, a seignorage is the most effectual preventive of the melting down of the coin, and, for the same reason, of its exportation."

How are these opinions to be reconciled with those of the same author in the following extracts?

Adam Smith (b. i. c. 5. v. i. p. 62.):—

"By the money price of goods, it is to be observed, I understand always the quantity of pure gold or silver for which they are sold, without any regard to the denomination of the coin. Six shillings and eightpence, for example, in the time of Edward I., I consider as the same money price with a pound sterling in the present times; because it contained, as nearly as we can judge, the same quantity of pure silver."

And (b. i. c. 11. v. i. p. 269.):—

"But the nominal sum which constitutes the market price of every commodity is necessarily regulated, not so much by the quantity of silver which, according to the standard, ought to be contained in it, as by that which, it is found by experience, actually is contained in it. This nominal sum, therefore, is necessarily higher when the coin is much debased by clipping and wearing, than when near to its standard value."

And (b. iv. c. 3. v. ii. p. 273.):—

"But the value of the current coin of every country, compared with that of any other country, is in proportion, not to the quantity of pure silver which it ought to contain, but to that which it actually does contain."

It seems extraordinary that Adam Smith should introduce another element into the "money price of goods," besides "the quantity of pure gold or silver for which they are sold," that the expense of coinage and the charge of seignorage may be made elements in constituting "the money price of goods." Is it

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* p. 43.

immaterial; whether at home or abroad, it will be valued by its weight of pure silver or pure gold—by its intrinsic value.

Adam Smith (b. iv. c. 3. v. ii. p. 273.):—

"The French coin was, before the late reformation of the English gold coin, much less worn than the English, and was, perhaps, two or three per cent. nearer its standard. If the computed exchange with France, therefore, was not more than two or three per cent. against England, the real exchange might have been in its favour. Since the reformation of the gold coin, the exchange has been constantly in favour of England, and against France.

In some countries the expense of coinage is defrayed by the government; in others, it is defrayed by the private people, who carry their bullion to the Mint, and the government even derives some revenue from the coinage. In England, it is defrayed by the government, and if you carry a pound weight of standard silver to the Mint, you get back sixty-two shillings, containing a pound weight of the like standard silver. In France, a duty of eight per cent. is deducted for the coinage, which not only defrays the expense of it, but affords a small revenue to the Government. In England, as the coinage costs nothing, the current coin can never be much more valuable than the quantity of bullion which it actually contains. In France, the workmanship, as you pay for it, adds to the value in the same manner as to that of wrought plate. A sum of French money, therefore, containing a certain weight of pure silver, is more valuable than a sum of English money containing an equal weight of pure silver, and must require more bullion, or other commodities, to purchase it. Though the current coin of the two countries, therefore, were equally near the standards of their respective Mints, a sum of English money could not well purchase a sum of French money containing an equal number of ounces of pure silver, nor consequently a bill upon France for such a sum. If for such a bill no more additional money was paid than what was sufficient to compensate the expense of the French coinage, the real exchange might be at par between the two countries; their debts and credits might mutually compensate one another, while the computed exchange was considerably in favour of France. If less than this was paid, the real exchange might be in favour of England, while the computed was in favour of France."

There can be no doubt that the loss in weight by the wearing of the coin would render the exchange with foreign countries unfavourable to the extent of that loss of weight; but does not this militate against the supposition that the exchanges would not be

equally unfavourable, if that loss of weight arose from a charge on account of seignorage? Would the value of the "fashion compensate the diminution of the weight?" To the English merchant who received the bill which would be paid in England in English money, it would be indifferent how the diminished quantity of pure gold or silver arose, whether from the wearing of the coin, or from the seignorage; he would receive so much less gold or silver on payment of the bill in London, where the seignorage would be worth nothing, upon Adam Smith's own reasoning. "Abroad, it (the coin) would only sell for its weight in bullion." The bill would be purchased with silver crowns or livres in France, and paid in gold in London. Adam Smith should have shown that the bill would purchase in France so much additional silver bullion as was equal to the amount of the seignorage, and that the exchanges were influenced in the manner that he describes. Adam Smith adduces the following statement in proof of his theory, for which I shall submit an explanation.

Adam Smith (b. iv. c. 6. v. ii. p. 379.):—

"The seignorage in France raises the value of the coin higher than in proportion to the quantity of pure gold which it contains. Thus, by the edict of January, 1726*, the Mint price of fine gold of twenty-four carats was fixed at seven hundred and forty livres nine sous, and one denier, one-eleventh, the mark of eight Paris ounces. The gold coin of France, making an allowance for the remedy of the Mint, contains twenty-one carats and three-fourths of fine gold, and two carats one-fourth of alloy. The mark of standard gold, therefore, is worth no more than about six hundred and seventy-one livres, ten deniers. But in France this mark of standard gold is coined into thirty louis-d'ors of twenty-four livres each, or into seven hundred and twenty livres. The coinage, therefore, increases the value of a mark of standard gold bullion, by the difference between six hundred and seventy-one livres ten deniers, and seven hundred and twenty livres; or by forty-eight livres nineteen sous and two deniers."

* "Dictionnaire de Bazinghen," tom. ii. p. 589., article "Seigneurage."
See the Analysis in Appendix.

Adam Smith (b. i. c. 5. v. i. p. 54.) had before stated, "In reality, during the continuance of any one regulated proportion between the respective values of the different metals in coin, the value of the most precious metal regulates the value of the whole coin."

According to this theory, the gold louis-d'or, being of the most *precious* metal, must have regulated the value of the whole coin. May not this have led to an erroneous conclusion? Whether the metal be the most precious or not is immaterial. That coin, whether gold or silver, which is made a legal tender in the payment of debt to any amount, the other coins being exchangeable with this coin at a rate beyond what those coins would sell for as bullion, becomes, from that circumstance, the measure or standard of value, and "regulates the value of the whole coin." It appears from the statement * (p. 379.) that the gold coins exchanged with the livres, at the rate of 48 livres 19 sous and 2 deniers more in coin than the bullion would sell for, of which these gold coins were composed — that this difference existed between the mark of coined and uncoined gold. The seignorage and all the reasoning of Adam Smith is applied by him to the louis-d'or, as if it was the standard coin, the measure of value; but the louis-d'or was not the measure of value, nor the money of account; nor was gold the standard. The money of account was the livre, sol, and denier, and the regulation that the louis-d'or should exchange for 24 livres—being about eight per cent. beyond its value as gold bullion—secured the louis-d'or in the circulation, not because it was more *precious* than the silver, nor because the seignorage increased its value as coin, but because it found in its exchange with the livres its best market; it became a token or merchandise, silver in value, although gold in metal — as our shillings become gold in value, although silver in metal. The louis-d'ors were as effectually silver in value, as if each louis-d'or had been transmuted into a 24-

* P. 49.

livre piece of silver. The standard was silver. The louis-d'ors were ancillary coins; their value was determined by the silver coin. The gold coin in France stood in the same relation to the silver coin, as the silver coin in England now stands to the gold coin. It would be as reasonable to say that the seignorage of 10 per cent. on our silver coin added ten per cent. to the value of our current coin, as to say that the seignorage of eight per cent. on the gold coin in France added eight per cent. to the value of the current coin; and that ten per cent. more must be paid in France for a bill payable in England, on account of the seignorage on the silver coin, as to say that eight per cent. more must be paid in England for a bill payable in France, on account of the eight per cent. seignorage on the gold coin there. The bill drawn on France was not paid there in gold money, valued as gold money, any more than a bill drawn on England in silver money is valued as silver money.

It is to be observed, that Adam Smith's illustration is borrowed from the gold coin, the louis-d'or: if the louis-d'or was an ancillary coin, and exchanged with the silver livres at seven or eight per cent. beyond its intrinsic value, it would be worth so much more, not on account of the workmanship, but on account of its being raised to the value of the silver livre, for which it was made exchangeable: the coined gold would be as valuable as the coined silver. If, as I submit, the gold coin was an ancillary coin, the seignorage would add to the gold coin the whole amount of the duty, as supposed by Adam Smith, and the consequences would follow which he enumerates:—If exported, it would soon return; it would be a tax which no one would pay; if a bill were purchased with gold coin, so much more beyond the intrinsic value of the coin would be paid for it as the seignorage amounted to; and it would neither be melted nor exported, but, I conceive, none of these consequences would result from a seignorage being imposed upon the legal tender coin;

that would be current only for its intrinsic value. Lord King has, in the tables before mentioned, given the rate of exchange between London and Paris for some years: the French money was silver crowns of 3 livres, and the par is stated to be about 29½ pence to the crown. The bill would have been drawn in this silver money, and Adam Smith should have drawn his illustration from this silver money, and not from the gold money; the silver money being the legal tender.

Lord King has given the monthly variations from 1789 to 1793. I take the month of April from each year; and it is curious to observe how the rate of exchange varied with the depreciation of the French money, in consequence of "the enormous issue of *Assignats* during the French Revolution."

1789, April 3	-	-	-	-	28¼
1790, April 2	-	-	-	-	25¼
1791, April 1	-	-	-	-	24⅞
1792, April 3	-	-	-	-	17½
1793, April 2	-	-	-	-	12 *

when all commercial intercourse was prevented by the war.

The only manner in which a seignorage can be charged is either by the Mint retaining a certain portion of the gold or silver bullion delivered to be coined, and returning in coin the same weight, containing a less quantity of pure silver or gold, adding a worthless alloy, to make up the weight: or by returning the same quantity of gold and silver in coin, as was received in bullion, and charging a per-centage for the coinage.

Bazinghen, in his preface, p. 11., states that he has extracted from a book entitled "Essai sur les Monnoies," by M. Dupré de St. Maur, the analysis of the coins fabricated by the Edict of January, 1726.†

It appears from Bazinghen, in his calculation of the seignorage (v. ii. p. 589.), that by the Edict of January,

* See Appendix.
† Extracted from Lloyd's Lists.

1726 the *marc* of fine gold of twenty-four carats was fixed at 740 livres 9 sols 1 denier one-eleventh, and the *marc* of coined gold or louis-d'or was issued May 26. 1726, at 720 livres, which was intrinsically worth only 671 livres 10 deniers, being of the standard of $21\frac{3}{4}$ fine (here the alloy made up the weight of the *marc* of 8 Paris ounces, and constituted the duty of seignorage and the charge of coinage).

The mode adopted respecting the silver crowns was similar, and is thus calculated.

The last valuation of the *marc* of fine silver,—that is, of 12 deniers, was 51 livres 3 sols and 3 deniers, and the intrinsic value of the silver crowns was 46 livres 14 sols 5 deniers; and in order to raise them to 49 livres 16 sols, which is the value which it has pleased the king to give them, there must be added 3 livres 5 sols 6 deniers, and half, which is the duty that the king takes upon the *marc* of crowns, as well for the expense of coinage, as for his duty of seignorage (the alloy making up the weight).

The seignorage on the gold coin is about $7\frac{1}{2}$ per cent., and on the silver coin about 7 per cent. Adam Smith takes notice only of the gold coin.

If the same, or nearly the same, seignorage, was levied on the gold and on the silver coin, it would not affect my reasoning respecting the gold coin being an ancillary coin, if rated in its exchange with the silver coin 7 or 8 per cent. higher than its marketable value as gold bullion.

I have reasoned upon Adam Smith's own illustration of his theory and upon his own premises.

The arguments I have adduced are of general application; any opinion of so celebrated an author as Adam Smith is entitled to the strictest investigation: with all respect for so high an authority, I conclude that the coin which exchanges with *coin*, and which is coined by the State, with due limitation of the amount for which it shall be legal tender in its exchange with the legal tender coin, may be subject to a seignorage, but that the legal tender coin, the

measure of value, the money of the country, which exchanges with *commodities*, cannot be subject to any duty of seignorage or expense of coinage, as adding to its value: the person who brings the bullion to be coined into the *legal tender coin*, whether gold or silver, may pay a small duty for the convenience of having coin for his bullion: this small duty he pays, and the loss is his, and the coin is only worth its intrinsic value in circulation as coin at home, or as bullion abroad.

In a note in Mr. M'Culloch's edition of Adam Smith's "Wealth of Nations," I find the following remark, p. 21.: —

"This is an error into which Dr. Smith was betrayed by trusting to the "Dictionnaire des Monnoies" of Bazinghen. In 1771, the seignorage on gold in France was fixed at $1\frac{4}{15}$ per cent., and on silver at $1\frac{7}{24}$ per cent. At this moment it is so low as hardly to cover the expense of coinage, being about $\frac{1}{3}$ per cent. on gold and $1\frac{1}{2}$ per cent. on silver.—See Necker, Administration des Finances, tome 3, p. 8."

Bazinghen states the seignorage in 1726; it is possible that some alteration may have taken place between that date and 1771; Adam Smith wrote in 1775.

The opinion of Adam Smith was adopted by Mr. Foster, and rejected by Mr. Thornton.

Mr. Thornton, "Essay on Paper Credit," p. 208.:—

"Guineas not only circulate at home, but are liable to be sent abroad in the event of any unfavourable balance of trade: they are worth, in that case, just as much as the foreign country will give for them; and the foreign country, in estimating their value, since it means to melt them, *does not at all take into its calculation the expense of the coinage of the piece of metal: it acts like the buyer not of new but of old plate, who destines it to the melting-pot and therefore refuses to allow anything for the fashion.*"

Upon which Mr. Foster observes, "Essay on the Principle of Commercial Exchanges," p. 89.:—

"Now if this reasoning be just, it would appear equally to follow, that an unfavourable exchange might occasion the melting of gold watchwork, in order to be exported in the shape of bullion; but the value of the watchwork is resolvable into two parts; first, the price of the gold, and secondly, the price of the labour employed in converting it into watchwork; and this latter part

of the price must ever countervail any possible encouragement to the exportation of bullion. In the same manner it seems that if a seignorage of 5 per cent. was paid on our coinage, one hundred guineas would then cost the original Mint price of the bullion, and also five guineas, as the expense of having been converted from bullion into guineas; the first purchaser must evidently give this value for it, and he would never part with it, except for an equivalent consideration: so that, however unwilling the foreign country might be to "*take into calculation the expense of the coinage of the piece of metal,*" it would find it impossible to obtain the piece on any other terms; the foreign nation could then obtain neither our guineas nor our watchwork, without paying, first, the value of the materials, and secondly, the price of the labour exerted in giving them their form."

Mr. Foster supposes that, as the first purchaser of the hundred guineas must pay five guineas for the coinage, he would never part with the one hundred guineas for less than the expense of the coinage, in addition to the hundred guineas: and that the foreigner must pay this, or he could not obtain the guineas: but the person who owes the debt must pay it to the foreigner with the same quantity of gold or silver as other nations, or he would not be able to purchase the goods; and the person who sells the goods must sell them at the same price as other nations, or he could not sell them; the foreigner would decline purchasing both the guineas and the watchwork, if five per cent. dearer in England than in other countries: it is the bullion, the intrinsic value, which is the money among nations—a value determined by the competition of all countries, perfectly distinct from the monopoly of the Mint and the monopoly of the home market, by which the *rated* coins only are protected; the legal tender coin which exchanges with commodities is valued according to the weight and fineness of the precious metal, whether that be gold or silver; the ancillary coin which exchanges with coin may be raised in value in the *national* circulation by a seignorage, as its market is confined to coins, and has no relation to commodities.

CHAP. V.

A MODE OF CHANGING THE GOLD TO A SILVER STANDARD.

Many years ago, some years before the introduction of Sir Robert Peel's Bill, I was deeply impressed with the opinion that it would be advantageous to this country to change the standard from gold to silver. Since that time great changes have taken place with respect to the supply of the precious metals: the gold from the Ural Mountains in Russia, and the recent discoveries of gold in California and Australia, render the policy of any change at present more than doubtful; and it would be prudent to wait to see how other nations may act; and without presuming to recommend any change, I submit the present plan—*valeat quantum*— the principle is the same, whether the change be from the gold standard to the silver standard, or from the silver standard to the gold standard. I may, perhaps, be allowed to say, that when I conceived this mode of changing the standard, I was not aware that the word token had ever been applied to the silver coins in our currency.

We have seen that by making the gold money, or the sovereign, the legal tender of value to any amount, and by coining the silver and copper coins at a less *intrinsic* value than their *exchangeable* value with the sovereign, or legal tender coin, we confine the circulation of the silver and copper coins to the national or domestic use; we procure for these coins in the

domestic circulation a better market than is afforded either by the bullion dealer, or by the foreign market; they are neither melted nor exported; they are more valuable as coin than as bullion, and we destroy all traffic for profit in coins of different metals among themselves. This is truly a domestic exchange, which, not being subject to any expense of commission or transport, is invariable, and has no *price;* we have a fixed and immutable standard.

As it is desirable to free the domestic or national circulation from all traffic for profit in the different coins among themselves; to keep the national money free from variation; so it is desirable for the same reason to keep the international coins or money as free as possible from variation. We cannot for this purpose adopt the same method, as in the national or domestic coin. The exchangeable value of the gold, silver, and copper coins among themselves being determined by the laws of each country, which have no force in foreign countries, the rule is confined to each particular State.

"Locke" * thought that it was necessary that all our coins should be of *one metal,* on the ground that coins could never exceed their value as bullion. Although this has been shown not to be necessary in the domestic circulation, yet it is very desirable in the exchange of our legal tender coin with that of foreign countries. As all traffic is destroyed in the domestic circulation by rendering it unprofitable, so all traffic between the *coins* of different countries will be destroyed if that traffic is unprofitable. And as the international coins are valued only according to the quantity of pure gold or pure silver they contain, and as gold and silver have nearly the same value in different countries; if two nations have gold coins for their domestic circulation, for their standard of value, there can be no profit in sending, from one country to the other, a pound of gold in coin, to receive

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* P. 49.

a pound of gold in coin; the same with silver coin when both countries have a silver standard. But when two nations have different metals for their legal tender coin, or standard of value; when one nation has silver, and the other gold, then a traffic may take place between the two countries in the coin. Gold may purchase more silver in Paris than in London, and silver may purchase more gold in London than in Paris; the gold being merchandise in Paris, and the silver being merchandise in London. An ounce of gold may buy four ounces and one pennyweight of silver in Paris, and only four ounces in London. And there would be a profit in sending the gold coin from London to Paris, — a profit of one pennyweight on the ounce. But there would be no profit in sending one ounce of gold in coin from London, to receive one ounce of gold in coin at Paris. It would be a matter of weight, and not of value. This is independent of the exchanges.

There might be an exportation of silver coin from Paris to London to pay debt, if both countries had a silver standard, but there would be no traffic in the coins.

All countries have a silver standard of value except England (and perhaps Portugal), and no traffic can exist in the legal tender coins of those countries respectively *inter se*. A pound of silver in coins at Madrid, or at Paris, or at St. Petersburg, is of the same value. The coins are safe from being bought or sold in each country, with the coins of the other countries. The traffic of the coins respectively, *inter se*, is destroyed.

If England were to place herself in the same situation relatively to those countries as respects her coinage; if England had a silver standard, there would only be an exchange of her coins with those of other countries, as international money to pay debts. England would offer to foreigners no advantage over other countries, in offering them gold coin, whilst other countries offered silver coin. The

market of the world would be open to all countries for the supply of the precious metals, on equal terms.

We should be applying to our international money the rule which Locke thought to be essential to our national money: a rule essential to the former, but not to the latter. A rule would be applied to our international as well as to our national coin that would destroy traffic for profit in coins *inter se;* an effect equally desirable in both.

In reverting to a silver standard, I submit that it will be necessary to make the silver coin, representing the pound sterling, of the same value as the sovereign, at the time of its coming into effect. To determine this value, it will be necessary to ascertain what quantity of standard silver the sovereign will purchase at that particular period; and to declare that after such a day the pound sterling shall be represented by such a weight of standard silver; and this silver will be coined into four crowns, and that these four crowns will be the value of the pound sterling, and will be a legal tender in the discharge of debt to any amount.

Supposing the price of silver bullion of standard fineness was 5*s.* an ounce, then four ounces of standard silver would be equivalent to the sovereign or pound sterling; and if government were then by proclamation to declare, that at a certain future day the pound sterling should consist of four crowns, each crown containing one ounce of standard silver, this would not alter or disturb the prices or the existing exchanges with foreign countries, but would *fix the exchanges.* The government might choose the time of issuing the proclamation; and when the price of standard silver was 5*s.* an ounce, would perhaps be the most advisable time, for the sake of the more simple division of the pound sterling into four crowns of one ounce each; but this is submitted. This would be in the proportion of 1 to 16 gold coin for silver coin. It would be exchanging the gold coin for silver coin at the rate of 80*s.* per ounce of gold. There would be a

relaxation of the standard from what it was fixed, on the resumption of cash payments from 3*l.* 17*s.* 10½*d.* to 4*l.* The difference would be a difference of about 2¾ per cent.; the silver would be exactly worth the gold at the time, and no one would be very much injured; the 3*l.* 17*s.* 10½*d.* were not silver, but gold. This division was rather more than a quarter of an ounce of gold to the sovereign. It was more about 2¾ per cent. We should then have nominally no relation to gold in the shillings, as there is now no real relation to silver. We should have silver pounds and silver shillings, as we have now gold pounds and gold shillings. More silver would be paid for the pound sterling than in the time of Elizabeth, or according to the Mint regulations, when we had a silver standard, the silver being then reckoned at 5*s.* 2*d.* the ounce.

As all traffic in coins *inter se* either by melting or by exporting them is destroyed by destroying profit, and those coins will be confined to the circulation if they find in that circulation the best market, the present half-crowns and shillings and sixpences and four-penny pieces and copper coins might continue to circulate relatively to the crowns, as they before circulated relatively to the sovereign. If the present silver coins were declared exchangeable for the crown at the rate of 5*s.* to the crown, and the crown were declared to be a legal tender for the discharge of debt to any amount, at the rate of four crowns to the pound sterling, and the other silver coins were declared a legal tender only to the amount of two, three, or four crowns, and the copper coins a legal tender only for one shilling or sixpence, as at present, it would not be necessary to call in any silver coins except, perhaps, the present crown-pieces in circulation; the present coinage the different other silver and copper coins would circulate as before, representing fractional parts of the crown, as they now represent fractional parts of the sovereign; they would not themselves be a measure of value; they would be tokens, as now representing fractional parts of the pound sterling of

four crowns; they would circulate relatively to the new crowns, as the whole of our silver and copper coins now circulate relatively to the sovereign. As our present silver coins are not worth as silver in bullion their value as coin, being merely tokens representing fractional parts of the sovereign, exchangeable for the sovereign; so the silver coins now in circulation, below the denomination of the crown and copper coins, would in like manner circulate as tokens, representing fractional parts of the new crown. They would not be more liable to be forged by the coiners of base money, than the silver and copper coins are now liable to be forged, in consequence of their not being intrinsically worth the sovereign. All these ancillary silver and copper coins should be coined exclusively by the State.

It has been objected to the silver standard, that it would be inconvenient on account of the greater bulk of silver in proportion to its value, but in the payment of large sums it is seldom that much coin is required; large sums of *gold* could not be taken without inconvenience. Bills and cheques are used instead of gold and silver.

Whenever we may revert to a silver standard, it will be of great importance not to derange the circulation more than necessary; and to retain in our circulation as much of the gold coin as can be done conveniently; there is an additional reason, in the tendency it would have to disturb less the relative value of gold to silver, in consequence of the market of silver being so much enlarged for the supply of our silver coinage, and the market of gold being so much narrowed from the lessened demand for our gold coinage. The gold coin at present in circulation has been variously estimated; it may be twenty-five or thirty millions. If we can retain in circulation in addition to the silver coin ten or fifteen millions of gold, it will be very desirable; we shall not be obliged to obtain so much silver, and there will be less disturbance to the circulation.

I think I can satisfy the reader, who will be at the pains to consider what I have already written, that it is practicable to retain a great portion of our gold in circulation as coin.

We must consider that when we have a silver standard, gold and silver will be relatively to each other, as coin, in the exact opposite to what they are now. Silver is now an article only of merchandise; it does not, as silver coin, pass according to its intrinsic value as silver; and gold is now exclusively our coin, as a measure of value. Silver will then be exclusively our coin as a measure of value, and gold will be only merchandise; as our silver coins now circulate as tokens, representing fractional parts of the gold pound sterling, so then our gold coins may be made to circulate as tokens relatively to the silver crowns, as fractional parts of the silver pound sterling. To accomplish this, we must place the gold coins in the same relative position to the silver coins, as the silver coins now occupy relatively to the gold coin.

As the silver coins now contain about 7½ per cent. less than they should contain of silver, to be equal in value *as silver bullion* to the gold coin, so the gold coins must contain about 7½ per cent. less gold than they should contain to be equal in value, as bullion, to the silver coin. The present gold coin should be called in to prevent the inconvenience of a double standard.

The gold sovereign, or by whatever name it may be called, must contain about 7½ per cent. less weight than the present sovereign, and be declared by law exchangeable for twenty shillings or four crowns. The half-sovereign should be also coined of half the weight of the new sovereign, and be declared by law to be exchangeable for two crowns or ten shillings. The present sovereigns are coined after the rate of 44½ guineas, or 46*l.* 14*s.* 6*d.*, to the pound of standard gold of twelve ounces troyes. If we add 7½ per cent,

to 46*l.* 14*s.* 6*d.*, which will be 3*l.* 10*s.* 1*d.*, there will be 50*l.* 4*s.* 7*d.* If the pound troyes of gold were coined into fifty sovereigns, we should have a gold coinage about 7 per cent. less valuable as bullion, than as coin. The pound troyes might also be coined into 100 half-sovereigns. The shillings would be made exchangeable at the rate of five shillings to the crown, and the other silver coins at the same ratio. As the limitation of the amount for which this gold coin should be a legal tender is a matter simply of public convenience, and not affecting its value, whilst it is declared exchangeable by *law* with the more valuable legal tender coin, this amount may be determined as may be judged most expedient, the State alone having the privilege to coin the gold coin and the other ancillary coins. The sovereign might bear the device, on the one side, of the effigies of the Sovereign, and, on the other, the crown.

It would be immaterial to the Government, as regards the new coinage, at what price silver bullion may be, except for the difference between the weight of the *old and the new crowns;* the new crowns would be issued at the same price for which the bullion was purchased, and there would be neither loss nor gain; on account of the nearness of size between the present crowns and the new ones, it would be advisable to call in the present crowns in circulation, and to exchange them for the new crowns, and the difference in the weight of the two would be the only loss added to the expense of coining them.

If the new coinage were to embrace all the silver coins, the half-crowns, shillings, sixpences, and fourpennies, if these coins were called in, and new coins issued to this amount, having the intrinsic value equal to the nominal value, there would be a loss upon the coinage equal to the difference of the weight of the new and the old coins now circulating. But upon the principle that these coins would circulate

as *tokens* relatively to the crown-piece, in the same manner as they now circulate relatively to the *sovereign*, this additional expense would be saved.

If we suppose the present gold circulation to be thirty millions, and that one half were to be retained still in our circulation, it would not perhaps be too high an estimate. Let us suppose fifteen millions of the circulation to be filled by the new sovereigns, and that these sovereigns were issued at the rate of fifty sovereigns to the pound of gold, there would be a large profit or seignorage upon the gold coin.

The profit upon the gold coinage would be the difference between 46*l.* 14*s.* 6*d.*, at which the gold coins would be received, and 50*l.* per lb., at which they would be issued.

It would require 300,000 lbs. of standard gold to coin 15,000,000 of sovereigns at the rate of fifty sovereigns to the pound. - -	£ 15,000,000
The 300,000 lbs. at 46*l.* 14*s.* 6*d.* per lb. would cost - - -	14,017,500
	£ 982,500

The gain upon the gold would be thus 982,500*l.* against the expense of the coinage and the difference in weight between the old crowns called in and the new crowns issued for the amount.

I know not what this expense may be, it may not exceed 100,000*l.*

If 10,000,000 of the new sovereigns circulated, there would be a gain of 655,000*l.*, and so in proportion for a smaller quantity.

Even with our present gold standard and our present currency, I see no reason why gold pieces of the current value of fifteen shillings each might not be coined, and made exchangeable with the gold sovereign at five per cent. beyond their intrinsic value as gold bullion; the State reserving to itself the exclusive privilege of coining them, and declaring them, by law, to be exchangeable with the gold sovereigns

at the rate of four of these gold pieces for three sovereigns, and not to be a legal tender in the payment of debt beyond three pounds, or sovereigns: these coins would not be melted or exported; they would be confined to our circulation by the same rule of private interest, as the present shillings. These coins might have the device of the effigies of the Sovereign on one side, and on the other the crown, and under it 15 shillings, the sum for which it was current — these coins might have what name the Sovereign may please.

If five millions of these coins were issued in the United Kingdom, they would yield a seignorage of 5 per cent. on five millions, or two hundred and fifty thousand pounds. They would circulate as our sovereigns now circulate, and might be weighed at the banks: such a coin might be very convenient, and may be issued in such quantities as may be thought advisable and gradually introduced — but I doubt if they should exceed, in any case, in value, one fourth of the value of the sovereigns in circulation.

This calculation is founded upon the principle that whatever coin, of whichever metal, whether gold or silver, is declared to be the legal tender of value to any amount, that coin will determine the value of the whole currency, provided the other coins of different metals are made by law exchangeable with the legal tender coin at a rate higher than they are intrinsically worth, and the right of *coinage of the ancillary* coins is reserved to the State.

CHAP. VI.

ON THE FOREIGN EXCHANGES.

THE following extract from Adam Smith will convey to the reader a true account of the nature of commercial exchange (b. iv. c. 3. v. ii. p. 272.):—

"When for a sum of money paid in England, containing, according to the standard of the English mint, a certain number of ounces of pure silver, you receive a bill for a sum of money to be paid in France, containing, according to the standard of the French mint, an equal number of ounces of pure silver, exchange is said to be at par between England and France. When you pay more, you are supposed to give a premium, and exchange is said to be against England, and in favour of France. When you pay less, you are supposed to get a premium, and exchange is said to be against France, and in favour of England."

Adam Smith reasons as if the Standard in France and in England was the same, and as if both nations had a silver standard; he observes (b. i. c. 5. v. i. p. 52.):—

"In England, therefore, and for the same reason, I believe in all other modern nations of Europe, all accounts are kept, and the value of all goods, and of all estates, is generally computed in silver; and when we mean to express the amount of a person's fortune, we seldom mention the number of guineas, but the number of pounds sterling which we suppose would be given for it."

If England and France had the same measure of value, whether silver or gold, the par would be the like weight of silver or gold; to have this par it is evident that the metal forming the measure of value must be the same in both countries, as the deviation

from the par, the favourable or unfavourable exchange is simply a deviation from a given weight; an exchange is not purchase or sale. But when countries have not the same measure of value; when the money in one is gold, and in the other silver; as the like quantities of the same metal are never exchanged, there is *price* but no par; there is a purchase and sale of gold for silver, and of silver for gold, and the price of these metals, as merchandise, varies daily. The par is to the exchanges, what the standard of value is to commodities, and it is as essential to have a test of the one as of the other, a fixed par as a fixed standard.

Adam Smith defines the par of exchange to be when for a certain number of ounces of pure silver paid in England, you receive a bill for an equal number of ounces of pure silver to be paid in France; but the money in England was gold, and in France silver, and the exchange would vary with the relative value of these metals to each other: he *assumes* the standard to be the same, which was not the case.

Gentlemen of great experience and knowledge in the affairs of banking, and of exchange, were examined before the Committee on the Bank Charter in 1832: it is not to be expected that their explanation of the exchange between England and France should be very clear, as it admits of no distinct definition.

N. M. Rothschild, Esq., (P. 4787.) p. 100. : —

"There is no fixed par of exchange; the par is to be obtained by calculating the value of the currency of one country against that of another, and adding the premium on gold. Suppose the exchange is 25·20 — that the English call par. If the exchange be against us, we send gold from England and receive no premium. The exchanges will be as you coin; twenty franc pieces for the sovereign (qu. napoleon); this will make it 25·10 or 25·15, — after deducting certain small charges on the transit. If our exchange goes to 25·80, the premium on gold gets up in Paris in proportion; so that transactions in exchange are calculated upon the premium on gold. Standard silver is not fifty-nine pence per ounce; it was sixty and a half; it changes every day, according to the importation. When South America sends silver, it falls in the English market. Gold is now higher than silver. As gold is wanted here, its price rises abroad."

The following is a statement in the "Times" newspaper:—

"The premium on gold at Paris is 12½ per mille, which, at the English mint price of 3*l.* 17*s.* 10½*d.* per ounce for standard gold, gives an exchange of 25·46, and the exchange at Paris on London at short being 25·62½, it follows that gold is 0·65. per cent. dearer in London than in Paris." *

It is long since I made the calculation stated below: I had difficulty to discover the *assumed* par which I deduced to be 25·15, which was confirmed by Mr. Rothschild, and which appears from the statement in the "Times," December 11th, 1850, to be the par there assumed.

I have made the calculation in a form which may be more acceptable, perhaps, to the generality of persons than a more recondite method: I think the "additional labour of calculating the premium" may not be so trifling, except to professed cambists, as Mr. Hubbard supposes. See p. 73.

I submit that it appears incorrect to quote any English mint price of gold, the 3*l.* 17*s.* 10½*d.* are simply portions or fractions of the ounce of gold; being as much gold as the sovereign, and the value of gold or of any other commodity cannot be mea-

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*

	fr. cnt.
Supposed par	25·15
Premium . .	12½
	30,180
	1,257
	31,437=31½
	1,000

fr. cnt.	
25·62½	Actual exchange.
25·46	Assumed exchange.
16½	centimes.

	fr. cnt.
Assumed par	25·15
Premium	31
	25·46

fr. cnt. cnt. fr.
If 25·46 : 16½ : : 100=0·65

sured by itself — the 3*l.* 17*s.* 10½*d.* are only weight or quantity: they represent the ounce of gold, and have no relation to value: this will be evident if we take the so-called mint price at 4*l.* an ounce, or four sovereigns per ounce: each sovereign would weigh one quarter of an ounce, and the four sovereigns or pounds would be merely four quarter ounces of gold: the 3*l.* 17*s.* 10½*d.* are $3\frac{143}{160}$ sovereigns.

Gold can have no price, and cannot be dear or cheap in London; and silver can have no price, cannot be dear or cheap in Paris: in the nature of things there cannot be a par, which is determined by weight of the same metal.

It must be admitted, I think, that where so much intricacy exists in arriving at a par, and which is no par, it is not to be expected that country bankers should regulate their operations in banking, by carefully studying the foreign exchanges.

The "Times" has lately varied its form thus:—

> "The quotation of gold at Paris is about 6 per mille, and the short exchange on London is 25·17½ per £ sterling. On comparing these rates with the English mint price of 3*l.* 17*s.* 10½*d.* per ounce for standard gold, it appears that gold is nearly $\frac{6}{10}$ per cent. dearer in Paris than in London."

It appears from the evidence, of Horsley Palmer, Esq.*, that the Directors of the Bank of England do not embarrass themselves with nice calculations of exchange — P. 8. (129.) "A par of exchange, in the language of the Bank, means, no demand for bullion to be exported."

* A Digest of the Evidence on the Bank Charter taken before the Committee of 1832. London, 1833.

CHAP. VII.

THE BANK OF AMSTERDAM. ON AN EXCHANGE BANK AND INTERNATIONAL TREASURY FOR BULLION.

THE following account of the Bank of Amsterdam, by Sir William Temple, Bart., Ambassador at the Hague and at Aix-la-Chapelle in 1668, may prove interesting, and show the high character of those who had the custody of the Treasure.

P. 79.:—

"By this Senate are chosen the chief magistrates of the town, which are the Burgomasters and Eschevins: the Burgomasters of Amsterdam are four, whereof three are chosen every year; so as one of them stays in office two years; but the three last chosen are called the Reigning Burgomasters for that year, and preside by turns after the first three months; for so long after a new election, the Burgomaster of the year before presides, in which time it is supposed the new ones will grow instructed in the forms and duties of their office, and acquainted with the state of the city's affairs.

"The Burgomasters are chosen by most voices of all those persons in the Senate, who have been either Burgomasters or Eschevins; and their authority resembles that of the Lord Mayor and Aldermen in our cities. They represent the dignity of the government, and do the honour of the city upon all occasions. They dispose of all under-offices that fall in their time; and issue out all monies out of the common stock or treasure, judging alone what is necessary for the safety, dignity, or convenience of the city. They keep the key of the Bank of Amsterdam (the common treasure of so many nations), which is never opened without the presence of one of them; and they inspect and pursue all the great public works of the city; as the ramparts and stadt-house, now almost finished with so great magnificence, and so vast expense.

"This office is a charge of the greatest trust, authority, and dignity; and so much the greater by not being of profit or ad-

vantage, but only as a way to other constant employments in the city that are so. The salary of a Burgomaster of Amsterdam is but five hundred gilders a year (about fifty pounds sterling, p. 108.), though there are offices worth five thousand in their disposal."

P. 83.:—

"In this city of Amsterdam is the famous Bank which is the greatest treasure, either real or imaginary, that is known anywhere in the world. The place of it is a great vault under the stadthouse, made strong with all the circumstances of doors and locks, and other appearing cautions of safety that can be; and 'tis certain that whoever is carried to see the Bank shall never fail to find the appearance of a mighty real treasure, in bars of gold and silver, plate, and infinite bags of metals, which are supposed to be all gold and silver, and may be so for aught I know. But the Burgomasters only having the inspection of the Bank, and no man ever taking any particular account of what issues in and out, from age to age, 'tis impossible to make any calculation, or guess what proportion the real treasure may hold to the credit of it. Therefore the security of the Bank lies, not only in the effects that are in it, but in the credit of the whole Town or State of Amsterdam, whose stock and revenue is equal to that of some kingdoms, and who are bound to make good all monies that are brought into their Bank: the tickets or bills hereof make all the usual great payments that are made between man and man in the Town, and not only in most other places of the United Provinces, but in many other trading parts of the world. So as this Bank is properly a general cash, where every man lodges his money, because he esteems it safer, and easier paid in and out than if it was in his coffers at home: and the Bank is so far from paying any interest for what is brought in, that money in the Bank is worth something more in common payment than what runs current in coin from hand to hand; no other money passing in the Bank but in the species of coin the best known, the most ascertained, and the most generally current in all parts of the Higher as well as the Lower Germany." *

In a luminous account of the Bank of Amsterdam by Adam Smith (b. iv. c. 3. v. ii. p. 277.), written by him about a century afterwards in 1775, we are informed: —

"Before 1609 the great quantity of clipt and worn foreign coin

* See "Observations upon the United Provinces of the Netherlands," by Sir William Temple, of Shene, in the county of Surrey, Baronet, Ambassador at the Hague and at Aix-la-Chapelle in the year 1668. London, 1673.

which the extensive trade of Amsterdam brought from all parts of Europe, reduced the value of its currency about nine per cent. below that of good money fresh from the Mint. Such money no sooner appeared, than it was melted down or carried away, as it always is in such circumstances. The merchants, with plenty of currency, could not always find a sufficient quantity of good money to pay their bills of exchange; and the value of those bills, in spite of several regulations which were made to prevent it, became in a great measure uncertain.

"In order to remedy these inconveniences, a Bank was established in 1609, under the guarantee of the city. This Bank received both foreign coin, and the light and worn coin of the country, at its real intrinsic value in good standard money of the country, deducting only so much as was necessary for defraying the expense of coinage, and the other necessary expense of management. For the value which remained after this small deduction was made, it gave a credit in its books. This credit was called Bank money, which, as it represented money exactly according to the standard of the Mint, was always of the same real value, and intrinsically worth more than current money.

"It was at the same time enacted, that all the bills drawn upon, or negotiated at Amsterdam, of the value of six hundred guilders and upwards, should be paid in bank money, which at once took away all uncertainty in the value of these bills; every merchant, in consequence of this regulation, was obliged to keep an account with the Bank, in order to pay his foreign bills of exchange, which necessarily occasioned a certain demand for bank money."

In England we are not subject to any inconvenience from the circulation of foreign coins, and there is no uncertainty in the value of our coins relatively to each other or relatively to the standard of the Mint; our currency, considered as a national or domestic currency, is liable to neither variation nor uncertainty, but we are not free from the disadvantage arising from an uncertainty in the value of our currency, compared with the currency of foreign nations; the precious metals of gold and silver have a variable value relatively to each other, which inconvenience would not be, if England had the same standard of value as other countries, there would then be a par of exchange; the coins of any country may become worn or be clipped, and there would be a corresponding variation in the nominal exchange, but this variation can be detected by the diminished weight, and allowed in the calculation. If we had a silver

standard, while other countries have a silver standard, or if other countries had a gold standard, while we have a gold standard; or if an exchange Bank were established upon the plan which I venture to submit, there would be no uncertainty in the exchange from the variations in the relative value of gold and silver. In a pamphlet by John Gellibrand Hubbard, Esq.

He observes (p. 91.): —

"Considered with reference to those qualities which constitute the superiority of gold and silver for the purposes of money over the baser metals, gold is in all of them superior to silver; and I do not see that the circumstance of other countries having adopted the less perfect, should determine this country to reject the more perfect metal as the standard of its currency. The disadvantage of having *no permanent par of exchange* is quite imaginary. The *real* exchange between two countries varies constantly, and in a degree far exceeding the mere relative variations of gold and silver; and the only practical inconvenience of a single standard here, is in the trifling additional labour of calculating (for exchange operations) the premium which gold may bear abroad."*

It appears to me that it is the essence of a par that it should be *permanent*; without a par there is no test, and in a commercial sense no exchange: the "relative variations of gold and silver" in value have no necessary reference to the commercial exchanges: the exchanges vary according to the expense of transporting the precious metals from one country to the other; the relative value of gold and silver varies according to the productiveness of the respective mines, the cost of production relatively to each other, and to the demand and supply, without reference to the balance of payments which is the legitimate ground of variations in the commercial exchanges.

The evidence of P. H. Muntz, Esq., before the Committee of the House of Commons on commercial distress in 1848, shows that he did not treat, as a matter of indifference, the circumstance of our having a gold standard while other countries have a silver standard.

* "The Currency and the Country." London, 1843.

P. 105.:—

"1322. Do you know, from any authentic source, that it was going out?—I know that gold was sent out in September, and I believe in October, and I believe there was a considerable drain in both metals.

"1323. To foreign parts?—Yes.

"1324. Perhaps you can furnish the Committee with information upon that which is certainly at variance with the returns that they have; are you aware that the exchanges at that time were in favour of this country?—I do not find that they were at the end of September, or the beginning of October; what you call the exchanges being in favour of this country depends upon the premium on gold abroad; I have known frequently the exchange to be apparently in our favour instead of against us, but the premium on gold has been 3 or 4 per cent. on the other side of the water."

I give this evidence to show how the difference of standard introduces confusion in the calculation of the exchange; and when so very great importance is attached to the exchanges, when upon the modern principle of Bank management, they are to be the rule in determining the issue of Bank notes, it would appear to be most desirable that all uncertainty should be removed, as to the exchanges being in our favour or against us.

Adam Smith (b. iv. c. 3. v. ii. p. 279.):—

"Those deposits of coin, or those deposits which the Bank was bound to restore in coin, constituted the original capital of the Bank, or the whole value of what was represented by what is called Bank money. At present they are supposed to constitute but a very small part of it. In order to facilitate the trade in bullion, the Bank has been for these many years in the practice of giving credit in its books, upon deposits of gold and silver bullion. This credit is generally about 5 per cent. below the Mint price of such bullion. The Bank grants, at the same time, what is called a recipice or receipt, entitling the person who makes the deposit, or the bearer, to take out the bullion again at any time within six months, upon transferring to the Bank a quantity of Bank money equal to that for which credit had been given in its books when the deposit was made, and upon paying one-fourth per cent. for the keeping, if the deposit was in silver, and one-half per cent. if it was in gold; but at the same time declaring, that in default of such payment, and upon the expiration of this term, the deposit should belong to the Bank at the price at which it had been received, or for which credit had been given in the transfer

books. What is thus paid for the keeping of the deposit may be considered as a sort of warehouse rent, and why this warehouse rent should be so much dearer for gold than for silver, several different reasons have been assigned. The fineness of gold, it has been said, is more difficult to be ascertained than that of silver. Frauds are more easily practised, and occasion a greater loss in the most precious metal. Silver, besides, being the standard metal, the State, it has been said, wishes to encourage more the making of deposits of silver than those of gold."

One reason for charging a higher commission on gold than on silver might have been the varying relative value of gold to silver, which might be considerable even in six months. There could be no loss on this account on silver deposits, as it was restoring the same commodity that was received; but the gold deposits being delivered back in silver, or calculated in silver money, there would be more uncertainty respecting its value at the time of delivery relatively to the gold received. The relative proportional value of gold to silver was not settled in 1609; the discovery of the American mines made the proportional value more uncertain, and gold was becoming more valuable relatively to silver.

P. 281.:—

"A person can generally sell his receipt for the difference between the mint price of bullion and the market price. A receipt for bullion is almost always worth something, and it very seldom happens, therefore, that anybody suffers his receipt to expire, or allows his bullion to fall to the Bank at the price at which it had been received, either by not taking it out at before the end of the six months, or by neglecting to pay one-fourth or one-half per cent. in order to obtain a new receipt for another six months. This, however, though it happens seldom, is said to happen sometimes, and more frequently with regard to gold than with regard to silver, on account of the higher warehouse rent which is paid for the keeping of the more precious metal."

P. 282.: —

"The owners of bank credits, and the holders of receipts, constitute two different sorts of creditors against the Bank. The holder of a receipt cannot draw out the bullion for which it is granted, without reassigning to the Bank a sum of bank money equal to the price at which the bullion had been received. If he

has no bank money of his own, he must purchase it of those who have it. The owner of bank money cannot draw out bullion without producing to the Bank receipts for the quantity which he wants. If he has none of his own, he must buy them of those who have them. The holder of a receipt, when he purchases bank money, purchases the power of taking out a quantity of bullion, of which the Mint price is five per cent. above the Bank price. The agio of five per cent., therefore, which he commonly pays for it, is paid, not for an imaginary, but for a real value. The owner of bank money, when he purchases a receipt, purchases the power of taking out a quantity of bullion, of which the market price is commonly from two to three per cent. above the Mint price. The price which he pays for it, therefore, is paid likewise for a real value. The price of the receipt, and the price of the bank money, compound or make up between them the full value or price of the bullion."

B. iv. c. 3. v. ii. p. 284.: —

"The sum of Bank money for which the receipts are expired must be very considerable. It must comprehend the whole original capital of the Bank, which, it is generally supposed, has been allowed to remain there from the time it was first deposited, nobody caring either to renew his receipt, or to take out his deposit, as, for the reasons already assigned, neither the one nor the other could be done without loss. But whatever may be the amount of this sum, the proportion which it bears to the whole mass of Bank money is supposed to be very small. The Bank of Amsterdam has, for these many years past, been the great warehouse of Europe for bullion, for which the receipts are very seldom allowed to expire, or, as they express it, to fall to the Bank. The far greater part of the Bank money, or of the credits upon the books of the Bank, is supposed to have been created, for these many years past, by such deposits which the dealers in bullion are constantly both making and withdrawing. No demand can be made upon the Bank, but by means of a recipice or receipt. The smaller mass of Bank money for which the receipts are expired, is mixed and confounded with the much greater mass for which they are still in force; so that, though there may be a considerable sum of Bank money for which there are no receipts, there is no specific sum, or portion of it, which may not at any time be demanded by one. The Bank cannot be debtor to two persons for the same thing; and the owner of Bank money who has no receipt, cannot demand payment of the Bank till he buys one. In ordinary and quiet times he can find no difficulty in getting one to buy at the market price, which generally corresponds with the price at which he can sell the coin or bullion it entitles him to take out of the Bank.

"It might be otherwise during a public calamity; an invasion, for example, such as that of the French in 1672. The owners of Bank money being then all eager to draw it out of the Bank, in

order to have it in their own keeping, the demand for receipts might raise their price to an exorbitant height. The holders of them might form extravagant expectations, and, instead of two or three per cent., demand half the Bank money for which credit had been given upon the deposits that the receipts had respectively been granted for. The enemy, informed of the constitution of the Bank, might even buy them up, in order to prevent the carrying away of the treasure. In such emergencies, the Bank, it is supposed, would break through its ordinary rule of making payment only to the holders of receipts. The holders of receipts who had no Bank money, must have received within two or three per cent. of the value of the deposit for which their respective receipts had been granted. The Bank, therefore, it is said, would in this case make no scruple of paying, either with money or bullion, the full value of what the owners of Bank money who could get no receipts were credited for in its books, paying, at the same time, two or three per cent. to such holders of receipts as had no Bank money, that being the whole value which in this state of things could justly be supposed due to them."

Adam Smith (b. iv. c. 3. v. ii. p. 287.):—

"The Bank of Amsterdam professes to lend out no part of what is deposited with it, but for every guilder for which it gives credit in its books, to keep in its repositories the value of a guilder either in money or bullion. That it keeps in its repositories all the money or bullion for which there are receipts in force, for which it is at all times liable to be called upon, and which, in reality, is continually going from it and returning to it again, cannot well be doubted. But whether it does so likewise with regard to that part of its capital for which the receipts are long ago expired, for which in ordinary and quiet times it cannot be called upon, and which in reality is very likely to remain with it for ever, or as long as the States of the United Provinces subsist, may perhaps appear more uncertain. At Amsterdam, however, no point of faith is better established, than that for every guilder circulated as Bank money, there is a corresponding guilder in gold or silver to be found in the treasure of the Bank. The city is guarantee that it should be so. The Bank is under the direction of the four reigning Burgomasters, who are changed every year. Each new set of Burgomasters visits the treasure, compares it with the books, receives it upon oath, and delivers it over, with the same awful solemnity, to the set which succeeds; and in that sober and religious country oaths are not yet disregarded. A rotation of this kind seems alone a sufficient security against any practices which cannot be avowed. Amidst all the revolutions which faction has ever occasioned in the Government of Amsterdam, the prevailing party has at no time accused their predecessors of infidelity in the administration of the Bank. No accusation could have affected more deeply the reputation and fortune of the disgraced party; and if such an accusation could have been

supported, we may be assured that it would have been brought. In 1672, when the French King was at Utrecht, the Bank of Amsterdam paid so readily, as left no doubt of the fidelity with which it had observed its engagements. Some of the pieces which were then brought from its repositories, appeared to have been scorched with the fire which happened in the townhouse soon after the Bank was established. Those pieces, therefore, must have lain there from that time."

B. iv. c. 3. v. ii. p. 288. :—

"What may be the amount of the treasure in the Bank, is a question which has long employed the speculations of the curious. Nothing but conjecture can be offered concerning it. It is generally reckoned that there are about two thousand people who keep accounts with the Bank; and allowing them to have, one with another, the value of fifteen hundred pounds sterling lying upon their respective accounts (a very large allowance), the whole quantity of bank money, and consequently of treasure in the Bank, will amount to about three millions sterling, or, at eleven guilders the pound sterling, thirty-three millions of guilders; a great sum, and sufficient to carry on a very extensive circulation, but vastly below the extravagant ideas which some people have formed of this treasure."

"The city of Amsterdam derives a considerable revenue from the Bank. Besides what may be called the warehouse-rent above mentioned, each person, upon first opening an account with the Bank, pays a fee of ten guilders; and for every new account, three guilders three stivers; for every transfer two stivers, and if the transfer is for less than 300 guilders, six stivers, in order to discourage the multiplicity of small transactions. The person who neglects to balance his account twice in the year forfeits twenty-five guilders. The person who orders a transfer for more than is upon his account, is obliged to pay three per cent. for the sum overdrawn, and his order is set aside into the bargain. The Bank is supposed, too, to make a considerable profit by the sale of the foreign coin or bullion which sometimes falls to it by the expiring of receipts, and which is always kept till it can be sold with advantage. It makes a profit likewise by selling Bank money at five per cent. agio, and buying it at four. These different emoluments amount to a good deal more than what is necessary for paying the salaries of officers, and defraying the expense of management. What is paid for the keeping of bullion upon receipts, is alone supposed to amount to a neat annual revenue of between one hundred and fifty thousand and two hundred thousand guilders. Public utility, however, and not revenue, was the original object of this institution. Its object was to relieve the merchants from the inconvenience of a disadvantageous exchange. The revenue which has arisen from it was unforeseen, and may be considered as accidental."

Adam Smith (b. iv. c. 3. v. ii. p. 278.):—

"It was at the same time enacted, that all the bills drawn upon or negotiated at Amsterdam, of the value of six hundred guilders and upwards, should be paid in Bank money, which at once took away all uncertainty in the value of those bills. Every merchant, in consequence of this regulation, was obliged to keep an account with the Bank, in order to pay his foreign bills of exchange, which necessarily occasioned a certain demand for Bank money."

Could not a similar bank be established in London? If an exchange bank were established to receive bullion and coin upon the same principle as that of Amsterdam, and for the sums deposited were to give bank credits in that money or precious metal which should constitute the general money or standard of value in the great commercial countries, all uncertainty respecting the exchanges would be removed; there would be a par of exchange which would be permanent, and which might be constantly referred to.

It may be a matter for consideration, whether any compulsory clause would be necessary, in order to enforce the drawing of foreign bills payable in bank money. The advantage derived from the bank may be determined by experience, and its utility proved; if it was adopted only in a limited degree, the benefit would be secured of ascertaining whether the exchange was favourable or unfavourable, and in what degree; and if the same standard prevailed in commercial countries, it would doubtless very much facilitate the transaction of business.

The bank money would have no circulation at home because it would not be a legal tender.

In the Bank of Amsterdam no money was paid without producing the credit and the receipt for the same amount: the credit was the sum deposited, less the deduction on account of agio, or on account of the difference between the value of the bank money and the current money. The credit and the receipt seldom remained with the same person. There was a convenience in being able to take out this money,

without parting with the receipt, which would vary in value with the agio; and it was equally convenient to be able to sell the receipt without taking out the money.

To prevent the "stock-jobbing tricks," sometimes occasioned by the opposite interests of those who desired to depress and those who desired to raise the agio, "The Bank has of late years (p. 286.) come to the resolution to sell, at all times, bank money for currency, at five per cent. agio, and to buy it in again at four per cent. agio. In consequence of this resolution, the agio can never either rise above five, or sink below four per cent., and the proportion between the market price of bank and that of current money, is kept at all times very near to the proportion between their intrinsic values. Before this resolution was taken, the market price of bank money used sometimes to rise so high as nine per cent. agio, and sometimes to sink so low as par, according as opposite interests happened to influence the market."

Any regulation of this kind could only be required in case our circulating currency was of a different standard from the Bank standard; the varying relative value of gold to silver might then render some such regulation necessary.

The expenses of the establishment were paid by sundry charges which have been enumerated.

Besides the advantage of being the means of fixing the exchanges, this bank money had the additional value of being "secure from fire, robbery, and other accidents; the city of Amsterdam is bound for it; it can be paid away by a simple transfer, without the trouble of counting, or the risk of transporting it from one place to another."—P. 278.

If the standard of the international money were silver, if the bank money were to consist of crowns of one ounce each of standard silver, and the bank pound of four such crowns, there would be no uncertainty in our exchange with those countries which have a silver standard, in respect of the varying

relative value of gold to silver: the crown might be divided into cents for the coins of a lower denomination, as might be judged convenient: the ancillary coins to be rated in exchange with the crown at 7 or 10 per cent. above their intrinsic value, and to be a legal tender only to the value of the crown;—the State reserving to itself the privilege of coining the ancillary coins: as these coins would be wanted only for exchange purposes, few would be required; neither the crown nor the ancillary coins should be legal tender in the national circulation.

If, in consequence of the abundant supply of gold from Australia and California, the great commercial countries should adopt a gold standard, it would appear very desirable to have the gold exchange coin of a simple and well-known weight; as in the case of a silver exchange standard, it has been suggested to have for the integer exchange coin a crown weighing one ounce of standard silver; so, in case of a gold standard, it may be advisable to coin the gold bank pound from one quarter of an ounce of standard gold. The sovereign or pound sterling now weighs about 123¼ grains of standard gold; the bank pound would weigh 120 grains: the apportionment of the ounce of standard gold, according to the Mint regulations, is 3*l.* 17*s.* 10½*d.*, or $3\frac{143}{160}$ sovereigns: the apportionment according to the proposed bank pound would be 4*l.* or four quarter ounces: the difference would be about 2¾ per cent., being the difference between 3*l.* 17*s.* 10½*d.* and 4*l.*: there might be gold half bank pounds, and the other coins might be silver and copper, in such divisions as might be thought advisable: the ancillary coins of silver to be 7 or 10 per cent. more valuable as coin than as bullion, and the copper coins 15 or 20 per cent. more valuable: only a small quantity of the secondary coins would be required, as they would be used only for exchange calculations: all the ancillary coins to be coined only by the State, and none of the bank coins to be a legal tender in the national circulation.

As our standard is gold, there would be no agio on depositing gold bullion in the Bank, except what may arise from the circulating coin being worn, when that was deposited.

With the silver bullion deposited in the Bank it would be different; there would be an agio, which would vary according to the relative value of silver to gold at the market.

The principle being admitted, that it is desirable that every nation should have an exchange Bank and an exchange money of the same metal, the details for carrying into execution the system might be easily arranged; what is expedient for one country is expedient for every other country, and the interest of one is the interest of all. The exchange would be a domestic or national exchange, like that at Amsterdam; it would consist of the variation between the circulating coin and the bank coin; it would not be a varying exchange between different countries, produced by the varying relative value of the precious metals relative to each other.

The ancillary coins should be legal tender only for a certain amount: this may be arranged.

As the ounce of standard gold contains 440 grains of fine gold and 40 grains of alloy, together 480 grains, and as the pound would contain one quarter of this weight, or 120 grains of standard gold, on the proposed plan of a gold bank pound,—

The shilling in value would be $\frac{1}{20}$th of 120 grains, or 6 grains.

The penny would be $\frac{1}{12}$th of the shilling; or $\frac{1}{2}$ grain.

The farthing would be $\frac{1}{4}$th of the penny; or $\frac{1}{8}$th grain.

One grain of gold bank money would correspond with two-pence bank money.

There would be no alteration required in the domestic or national currencies of different countries; there would be one invariable standard of international money, doing away with all mystery, and making weight the only test of value.

Is not this a consummation devoutly to be wished?

B. iv. c. 3. v. ii. p. 289.:—

Adam Smith states his motive in writing his account of the Bank of Amsterdam to have been as follows:—

"But it is now time to return from this long digression, into which I have been insensibly led, in endeavouring to explain the reasons why the exchange between the countries which pay in what is called bank money, and those which pay in common currency, should generally appear to be in favour of the former, and against the latter. The former pay in a species of money, of which the intrinsic value is always the same, and exactly agreeable to the standard of their respective mints; the latter is a species of money of which the intrinsic value is continually varying, and is almost always more or less below that standard."

And he also states the motive and object of those who established the Bank to have been—

P. 289.:—

"Public utility, however, and not revenue, was the original object of this institution. Its object was to relieve the merchants from the inconvenience of a disadvantageous exchange. The revenue which has arisen from it was unforeseen, and may be considered as accidental."

There was at Amsterdam no rival establishment issuing promissory notes payable to bearer on demand, and anxious to get possession of this bullion. The merchants of Amsterdam were careful to confine the bank money to its proper use, to pay with it foreign bills of exchange, and, indeed, all bills, except those which may be supposed to circulate among the traders at home and the retail dealers, bills of small amount, not exceeding six hundred guilders, about 60*l.* sterling; these bills might be drawn in current money. This arrangement might suit a small state like Holland, where different monies circulated; here such a limitation would be unnecessary; but the great principle remains the same in a large or in a small state; that the *owners* of the international bullion should

not part with the *possession* of it, and that the merchants who could pay for it, or who imported it, should be uncontrolled in the employment of it in their foreign trade.

P. 277.: —

"The merchants, with plenty of currency, could not always find a sufficient quantity of good money to pay their bills of exchange, and the value of those bills, in spite of several regulations which were made to prevent it, became in a great measure uncertain."

Who were benefited by this disadvantageous exchange? Those who furnished the good bills in exchange for the currency; namely, the dealers in bullion, who, before the establishment of the Bank, had the power of regulating, to a certain extent, the exchange, by withholding the bullion which was to provide for the payment of the bills.

The Bank of England appears to stand in the same relation to the merchants and manufacturers, that the bullion dealers at Amsterdam stood in, previously to the establishment of the Bank. The bullion dealers may have created, by means of a monopoly, a disadvantageous exchange, for their own benefit: the Bank of England, by means of its monopoly and bank regulations, withholds, at its pleasure, the bullion which is the natural corrective of the exchange; the British merchants, with plenty of good inland bills, cannot always procure bullion to pay their foreign bills of exchange.

Is not the natural remedy for this inconvenience, that which was adopted by the intelligent merchants of Amsterdam; to establish a bank and *international treasury*, where the merchants of the "great mercantile republic" may deposit *their own bullion to pay their own bills of exchange;* where the bullion deposited may be in the possession of the *owners*, and not in the possession and under the control of those who simply hold it *on trust?*

The merchants of Amsterdam were aware that the possessor of bullion could always create good bills, by

transmitting the bullion to cover them. Of this I shall treat in the following pages.

Adam Smith (b. iv. c. 1. v. ii. p. 222.):—

"The gold and silver which can properly be considered as accumulated or stored up in any country, may be distinguished into three parts; first, the circulating money; secondly, the plate of private families; and, last of all, the money which may have been collected by many years' parsimony, and laid up in the treasury of the prince.

"It can seldom happen that much can be spared from the circulating money of the country, because in that there can seldom be much redundancy. The value of goods annually bought and sold in any country, requires a certain quantity of money to circulate and distribute them to their proper consumers, and can give employment to no more. The channel of circulation necessarily draws to itself a sum sufficient to fill it, and never admits any more.

"The melting down of the plate of private families has, upon every occasion, been found a still more insignificant resource (for carrying on foreign war). To accumulate treasure seems to be no part of the policy of European princes."

Adam Smith (b. iv. c. 1. v. ii. p. 225.):—

"Besides the three sorts of gold and silver above mentioned, there is in all great commercial countries a good deal of bullion, alternately imported and exported, for the purposes of foreign trade. This bullion, as it circulates among different commercial countries in the same manner as the national coin circulates in every particular country, may be considered as the money of the great mercantile republic. The national coin receives its movement and direction from the commodities circulated within the precincts of each particular country; the money of the mercantile republic from those circulated between different countries. Both are employed in facilitating exchanges, the one between different individuals of the same, the other between those of different nations.

Adam Smith again observes (b. iv. c. 6. v. ii. p. 376.):—

"The great annual importation of gold and silver is neither for the purpose of plate nor of coin, but of foreign trade. A round-about foreign trade of consumption can be carried on more advantageously by means of these metals than of almost any other goods. As they are the universal instruments of commerce, they are more readily received in turn for all commodities than any other goods; and on account of their small bulk and great value,

it costs less to transport them backward and forward, from one place to another, than almost any other sort of merchandise, and they lose less of their value by being so transported. Of all the commodities, therefore, which are bought in one foreign country, for no other purpose but to be sold or exchanged again for some other goods in another, there are none so convenient as gold and silver. In facilitating all the different round-about foreign trades of consumption which are carried on in Great Britain, consists the principal advantage of the Portugal trade; and though it is not a capital advantage, it is, no doubt, a considerable one.

"That any annual addition which, it can reasonably be supposed, is made either to the plate or to the coin of the kingdom, could require but a very small annual importation of gold and silver, seems evident enough; and though we had no direct trade with Portugal, this small quantity could always, somewhere or another, be very easily got."

Adam Smith, p. 289., observes, "The object of the Bank was to relieve the merchants from a disadvantageous exchange;" and he makes no allusion to the advantage derived from it, in consequence of its being "the great warehouse of Europe for bullion."

P. 284.:—"The Bank of Amsterdam has, for these many years past, been the great warehouse of Europe for bullion." But it was only the warehouse; the burgomasters were the depositaries of the treasure of the great mercantile republic, placed in the Bank by the owners for safe custody, and for the payment of their foreign bills of exchange, the property of individuals, and purchased with the commodities of different nations.

Whence arose the scarcity of "good money" to pay their bills of exchange? It must have arisen from a scarcity of bullion, for it is quite certain that the merchant who possessed bullion could find in this bullion the good money which he wanted, and which he could transmit to pay the bills he might draw.

It is said that "many regulations" were made in vain to prevent this scarcity of "good money" or of bullion.

The Dutch Government had the good sense to sanction what the sagacity and disinterestedness of the Dutch merchants proposed for the remedy of this

evil. They determined that a public warehouse, open to the world, should be established for the safe custody of the international bullion, the most convenient commodity, the money of the great mercantile republic.

This treasury of many nations was constituted a bank of deposit, as described by Adam Smith, for the transfer of accounts, and the delivery of the bullion to the individual owners when required. No part of this treasure was to be lent by the Bank, no profit was to result from it to the owners beyond the advantage of safe custody, honest delivery, and transfer of property.

Adam Smith thus expresses himself respecting this Bank in 1775, more than 150 years after its establishment—

P. 287. : —

"Amidst all the revolutions which faction has ever occasioned in the Government of Amsterdam, the prevailing party has at no time accused their predecessors of infidelity in the administration of the Bank. No accusation could have affected more deeply the reputation and fortune of the disgraced party; and if such an accusation could have been supported, we may be assured that it would have been brought. In 1672, when the French King was at Utrecht, the Bank of Amsterdam paid so readily as left no doubt of the fidelity with which it had observed its engagements. Some of the pieces which were then brought from its repositories, appeared to have been scorched with the fire which happened in the town-house soon after the Bank was established. These pieces, therefore, must have lain there from that time."

The relief afforded to the Dutch merchants appears to have been complete; whether that scarcity of "good money" to pay their foreign bills of exchange was occasioned by the bullion dealers, and the consequent uncertainty in the value of those bills, or from any other cause, the remedy appears to have been perfect.

The gold and silver bullion, the most convenient of all commodities, under certain circumstances of commerce, that great medium of the exchange, was allowed to perform, unconstrained, its useful office; it perambulated

the globe or was stationary according to the wants of commerce and of exchange; to liquidate the balance of debts among nations, furnishing the most convenient of all commodities, to supply the deficiency of international merchandise. What rash hand shall interrupt or disturb the circulation of this stream of Pactolus, the life-blood of foreign commerce, the Palladium of industry, *the security against bad markets;* harmless as the dove, but wise as the serpent, it holds on, when unconstrained, its salutary course; like the stream that, descending from the mountains, irrigates the plain with countless rills, carrying fruitfulness and plenty through the land; if "cribbed, cabined, and confined," it bursts forth a mountain torrent, carrying ruin and desolation, or, by its absence, converting the fertile plain into a barren waste.

It is to be observed that the Bank of Amsterdam offered the advantage of an instantaneous coinage, a ready Mint, giving, without delay, the bullion deposited, or a credit at the Bank, and a recipice for the bullion received, the one saleable in the market, payable to bearer, and the other transferable. The recipice was to guard the depositors from loss, and the Bank equally from loss, on account of the variation in the relative value of Bank money to currency. The credit in the Bank was a fixed sum, 5 per cent. below the Mint price of bullion, and the Bank required the production of both documents for the amount which it paid. The bearer of both received the bank money. He may have sold his receipt, and he bought another when wanted.

The Bank of Amsterdam was the warehouse for the gold and silver required to carry on the round-about foreign trade, for the bullion required to be transmitted to cover bills drawn to pay the balance of debt; the exchanges were no cause of alarm, because, if excessively unfavourable, a remedy was always at hand.

And let it be remembered that this Bank was established in that country which one would suppose

the least fitted for such an important trust, exposed to intestine division, the constant seat of war, "the prize-fighting stage for all Europe." But such was the mighty power of truth and justice, that nothing could shake the fabric built on so sure a foundation. The high-minded Burgomasters and Directors could still present a fearless front, even with the enemy almost at the gates of Amsterdam. "In 1672, when the French King was at Utrecht, the Bank of Amsterdam paid so readily as left no doubt of the fidelity with which it had observed its engagements."

It is to be observed that the Bank of Amsterdam was established for the convenience of the *merchants*, and that it was placed under the guarantee of the *city*, and "under the direction of the four reigning burgomasters, who are changed every year. Each new set of burgomasters visits the treasure, compares it with the books, receives it upon oath, and delivers it over, with the same awful solemnity, to the set which succeeds; and in that sober and religious country, oaths are not yet disregarded. A rotation of this kind seems alone a sufficient security against any practices which cannot be avowed."

It was considered. as it ought to be, simply a *commercial* question. The warehousing of the gold and silver, and the delivery of that gold and silver, is purely a *mercantile* question, and relates only to the most *convenient commodity* for *international commerce.* The same rule should apply to the precious metals as to any other international merchandise, bonded under safe custody, for free influx and efflux, like tobacco, tea, or coffee.

This international treasury has nothing to do with banking, beyond the delivery of the bullion and the transfer of accounts or credit. The business of a bank is to lend money, to receive deposits, and to discount bills, and has no relation to the precious metals *as merchandise.* The exchanges are simply a commercial question, with which no bank has any concern: it is a question of the cost of the freight,

insurance, and commission attending the transport of bullion, as of any other commodity. The international treasury also is purely a *mercantile* question, and the merchants should manage it. They should establish the bank or international treasury for their own convenience and security. Why should the merchants of Great Britain hesitate to do that which was found to be so advantageous to the merchants of Amsterdam? Are they less wealthy, or less sober, or less religious than those gallant Hollanders? Is the city of London less powerful than Amsterdam? Let the international Bank and Treasury be governed by, and be amenable only to, the international merchants; and what blessings will they confer upon the country!

It is as important that the circulation of this international bullion should be free, as that the circulation of the national coin should be free. The property in this bullion should be as sacred to the use of *the individuals* of the great mercantile republic, the international traders of all nations, to the *owners* of this bullion, as the property in the coin belonging to each individual, in the national circulation, is sacred to his use. To interrupt or impede the movement of the national coin, is to interrupt and impede the movement and direction of the commodities circulated within the precincts of each particular country. To interrupt or impede the movement of the bullion, the money of the great mercantile republic, is to interrupt and impede the movement and direction of the commodities circulated among different nations.

If a corporate company had been established at Amsterdam, with the privilege of issuing notes, payable to bearer on demand, for 5*l.*, 10*l.*, 20*l.*, and 100*l.*, is it to be for one moment supposed that these high-minded, disinterested, and independent Hollanders would have allowed this international bullion, deposited under a promise to restore it to the rightful claimant on demand, — is it to be imagined that they would have permitted this sacred deposit to be given up to this corporate company, and to be held

by them in pledge for the payment of their notes, that the merchants would have listened to such a proposal? that the nation would have suffered it?

What the Bank of Amsterdam was, the Bank of England is now, as respects the international bullion; it was not so when Adam Smith wrote. The Bank of Amsterdam was then "the great warehouse of Europe for bullion." May it not be said that the Bank of England is now the great warehouse for bullion, not only for Europe, but for the world — especially for gold?

Adam Smith conjectured that there might be 2000 depositors, each having 1500*l.* sterling in the Bank of Amsterdam, amounting to 3,000,000*l.* sterling in the whole.

Supposing 10,000,000*l.* to be required in the employment of bullion in the round-about foreign trade of consumption — if we allow 5000 depositors at 2000*l.* each on an average — that would complete the sum. If the merchants of Amsterdam could afford to have 3,000,000*l.*, surely the international traders of Great Britain could afford to have three times that sum employed for the same advantageous purpose. It is the most available of all assets, and would be a small sacrifice for so great a benefit; and perhaps a much less sum, perhaps one half only, would, on an average, be required. Let it be remembered that the experiment has been tried, and completely succeeded. The object is to separate the bullion, which is imported and exported for the purposes of foreign trade, from the national bank, and from all banks issuing promissory notes.

No national bank, nor any bank, should be sufficiently powerful in its capital or in its circulation to influence prices *generally;* the bullion would be taken to the bullion warehouse, and be the property of *individuals*, who, with their own resources, would pay their foreign bills.

The coin for circulation, and the bullion for exportation, would be perfectly distinct; the one employed

in the home circulation, and the other in the foreign trade. The bullion dealers would purchase bullion from the individual depositors in the bank, as was the case at Amsterdam. The bullion would be free—in the possession of the owners, whether the original importers, or those who had purchased it from them.

To talk of *free trade* without *free prices* appears a contradiction in terms.

The institution of the Bank of Amsterdam was in accordance with that spirit of independence and self-reliance, which should distinguish the commercial character—was worthy of a free people—was worthy of the men who warred against the gigantic power of Spain; who successfully resisted the tyranny of the Duke of Alva; who founded their commonwealth of civil and religious freedom on the shoals of the ocean, when the land would no longer afford them an asylum of liberty: these truly great men, these merchant princes, taking for their motto, "Vilius virtutibus aurum," disdained and rejected the temptation of profit. "Public utility, and not revenue, was the original object of the institution of the Bank." The Bank had one simple duty to perform, to keep safely and deliver honestly the gold and silver with which it was entrusted.

CHAP. VIII.

ON THE BANK OF AMSTERDAM.

In Mr. M'Culloch's edition of Adam Smith, p. 215. b. iv. c. 3.—

To my great astonishment, and deep regret, I find, in a note on the conduct of the Bank of Amsterdam, an accusation of the most serious nature against the Directors of that celebrated Institution, and which, one would hope, admitted of a more satisfactory explanation than is given by M. Storch, from whose work (Cours d'Economie Politique, iv. p. 96. Paris, 1823) the information appears to be derived. One would require some very clear evidence, that Adam Smith could have been mistaken in the character of this Bank, and that, contrary to the received opinions, the "four reigning Burgomasters" neglected their duty, or were deceived by the Directors; disregarded their oaths; and that the guarantee of the city of Amsterdam was a nullity. But Mr. M'Culloch asserts, upon the strength of his own discovery, that the regulations described by Adam Smith had the effect of "shutting the coffers of the Bank," while M. Storch thinks that these regulations were introduced "to guard the Bank from the effects of the underhand proceedings of the Directors."

Smith's Wealth of Nations, by J. R. M'Culloch, Esq., 4th Edition, Edinburgh, 1850.

B. iv. c. 3. p. 215. (note):—

"The events that have transpired since the publication of the Wealth of Nations have shown that the Directors of the Bank

of Amsterdam had abused the confidence placed in them. Towards the middle of last century they began to make considerable advances, in a private way, from the bullion deposited in their coffers, to the Government and the East India Company. But as this was a proceeding altogether inconsistent with the principles on which the Bank was founded, it could not fail to endanger its stability; and as the Directors must have been early aware of the difficult situation in which they had placed themselves, M. Storch thinks that the regulations described by Dr. Smith, with respect to the mode of recovering bullion deposited in the Bank, instead of being intended to facilitate the commerce in bullion, had been devised to guard the Bank from the effect of the underhand proceedings of the Directors. At all events it is certain that the regulations in question were enacted about the time when the Directors began to make secret advances to Government and the East India Company, and, on examination, it will be found that they, in fact, shut the coffers of the Bank.

"The bearer of a receipt for a deposit of bullion could not withdraw it without previously placing in the hands of the Bank an amount of bank money equal to the price at which the bullion had been received, or to the credit given him in the books of the Bank. If, therefore, the holder of a receipt for a deposit of gold or silver had made use of this credit or bank money, and in nine cases out of ten it was the desire to avail himself of that credit that led him to make the deposit, he had no power to make a demand upon the Bank for the gold or silver he had lodged in its hands, until he purchased an equivalent amount of bank money from some other individual; and as no bank money was ever issued, except on a deposit of bullion, it is clear that in the vast majority of cases, no individual could draw bullion from the Bank until some other individual had previously placed an equal sum in its coffers. By this ingenious contrivance the Bank received, on the one hand, what she paid out on the other; and the amount of bullion in her possession continued undiminished by the demands of her ordinary customers.

"But, however strange it may seem, these regulations do not appear to have excited any suspicion with respect to their real object. The habit of seeing the Bank always fulfil her engagements, the remembrance of what had taken place in 1672, and the confidence placed in the integrity of the city magistrates, by whom the Bank was administered, all contributed to blind the public and allay suspicion.

"This delusion was partially dissipated in December 1790. In the course of that month, the Bank published a notice stating that she would, in future, fix, from time to time, the price at which she would pay the silver deposited in her coffers; and she began by fixing it at such a rate that those who withdrew it sustained a loss of ten per cent. She announced, at the same time, that she would pay no deposits except to those creditors who had bullion of the value of 2500 florins and upwards in the Bank.

"This declaration could not fail to excite universal distrust. But the confidence placed in the rectitude of the management and the stability of the Bank, was still so great as to enable her to get over this crisis. Her dissolution was, however, at hand. In 1795 the French invaded Holland; and the provisional Government, established in the city of Amsterdam, was obliged to issue a declaration, which put to rest all doubts with respect to the real situation of the Bank, by informing the public that, during the last fifty years, the directors had successively advanced 10,624,793 florins to the East India Company, the provinces of Holland and West Friezland, and the city of Amsterdam. And thus, though the bullion actually in the coffers of the Bank, and the debt due to her, were together fully equal to her engagements, yet, as she had advanced so large a sum as ten and a half millions, to those who were no longer in a condition to meet the claims upon them, this statement of her affairs was really equivalent to a declaration of bankruptcy. In consequence, bank money which had previously borne a premium of five per cent. over the current metallic money of Holland, immediately fell to sixteen per cent. below it. This extraordinary decline marked the fall of an institution which had enjoyed for nearly two centuries unlimited credit in the commercial world, and rendered the greatest services to the country in which it was established."

Storch, Cours d'Economie Politique, iv. p. 96. Paris, 1823.

I think I shall show that Mr. M'Culloch is quite mistaken as to the operations of the Bank, and I will hope that M. Storch is not well informed of the circumstances he undertakes to detail:—

Mr. M'Culloch:—

"The bearer of a receipt for a deposit of bullion could not withdraw it without previously placing in the hands of the Bank an amount of bank money equal to the price at which the bullion had been received, or to the credit given him in the books of the Bank."

Adam Smith states:—

"The owners of bank credits and the holders of receipts constitute two different sorts of creditors against the Bank." *

The holder of a receipt *only* was not entitled to any bank money; he may have made no deposit.

* B. iv. c. 3. v. ii. p. 282.

He held a receipt which entitled him to the value of the difference between what the Bank gave for bullion and the market price.

The holder of a bank credit was entitled to the amount of bullion deposited at the price which the Bank gave, five per cent. below the market price, with an agreement to purchase it at four per cent. As Adam Smith observes (p. 283.): —

"The price of the receipt and the price of the bank money compound, or make up between them the full value or price of the bullion."

(P. 282.): —

"The person who has a receipt, and who wants to take out bullion, finds always plenty of bank credits or bank money to buy at the ordinary price; and the person who has 'bank money and wants to take out bullion, finds receipts always in equal abundance.'"

When the holder of a receipt, which simply entitled him to an agio or premium on bank money, *had purchased a bank credit*, he could withdraw bank money *without* "previously placing in the hands of the Bank an amount of bank money equal to the price at which the bullion had been received, or to the credit given him in the books of the Bank:" as Mr. M'Culloch supposes. The Bank paid the bank money due upon the credit given to the depositor, either to himself if he demanded payment, or to the person to whom he had sold it, and also the value of the receipt; and *the Bank received nothing.*

It is not to be wondered at that "these regulations do not appear to have excited any suspicion with respect to their real object." The bearer of a receipt was not entitled to any bank money. If he allowed the receipt to expire, which was his own fault, or, perhaps, his wish, he lost and the Bank gained the difference between the price of bank money and bullion, perhaps 5 per cent. The bank credit represented the bank money deposited; if the depositor had parted with this to another, that person, and not

himself, became the owner of the money. It is not correct to say, "If, therefore, the holder of a receipt for a deposit of gold or silver had made use of this credit or bank money, and, in nine cases out of ten, it was the desire to avail himself of that credit that led him to make the deposit, he had no power to make a demand upon the Bank for the gold or silver he had lodged in its hands, until he purchased an equivalent amount of bank money from some other individual, and as no bank money was ever issued, except on a deposit of bullion, it is clear that in the vast majority of cases, no individual could draw bullion from the Bank until some other individual had placed an equal sum in its coffers."

The receipt and bank credit are here confounded. The receipt was not a bank credit for a deposit. The holder of a receipt was not generally the person who made the deposit, and had certainly no claim to any bank money in virtue of the receipt. If the depositor "had made use of this credit or bank money," he must have transferred to another his right or claim to the bank money, and received its value. The purchasers and sellers of receipts, and of bank credits, were quite independent of the Bank. The Bank could not owe two persons for the same thing. It paid the bank money on demand to the extent of the credit. The receipt was given for the convenience of those who thought the bullion market might be more in their favour. It lessened the labour of the Bank to require the receipts which might always be had, to be paid at the same time as the bank money; if the party chose to receive the value of the receipt and not to allow it to fall to the Bank, which must seldom have happened.

The following extract from Adam Smith (b. iv. c. 3. v. ii. p. 285.) states the value of a receipt and of a bank credit, and what, it was supposed, the Bank would do in case of an invasion:—

"It might be otherwise during a public calamity; an invasion, for example, such as that of the French in 1672.

"In such emergencies, the Bank, it is supposed, would break through its ordinary rule of making payment only to the holders of receipts. The holders of receipts, who had no bank money, must have received within two or three per cent. of the value of the deposit for which their respective receipts had been granted. The Bank, therefore, it is said, would in this case make no scruple of paying, either with money or bullion, the full value of what the owners of bank money, who could get no receipts, were credited for in its books; paying, at the same time, two or three per cent. to such holders of receipts as had no bank money, that being the whole value which, in this state of things, could justly be supposed due to them."

Mr. M'Culloch proceeds: —

"By this ingenious contrivance the Bank received on the one hand what she paid out on the other; and the amount of bullion in her possession continued undiminished by the demands of her ordinary customers."

It appears, I think, that this "ingenious contrivance" had no existence. Such "contrivances" are not deserving of the gentle epithet of "ingenious:" contrivances which would elude the payment of a just debt, and delude the public with a semblance only of honesty.

"In the course of that month (December 1790) the Bank published a notice, stating that she would in future fix, from time to time, the price at which she would pay the silver deposited in her coffers; and she began by fixing it at such a rate, that those who withdrew it sustained a loss of ten per cent. She announced, at the same time, that she would pay no deposits, except to those creditors who had bullion of the value of 2500 florins and upwards in the Bank."

Without a knowledge of the state of the current coin at Amsterdam at the time, an opinion can scarcely be formed why the price of silver should be fixed from time to time, or how the loss of 10 per cent. arose; the limitation of payments to sums not less than 2500 florins, about 250*l.* sterling, might have been met by the depositors of the smaller sums of bullion disposing of it to the larger depositors.

It appears that the Bank got over this crisis, and that the dissolution of the Bank took place on the invasion of Holland by the French in 1795, when the provisional government announced that the Bank

had, during the last fifty years, made advances to the East India Company, the provinces of Holland and West Friezland, and the city of Amsterdam, to the amount of 10,624,793 florins: the bullion actually in the coffers of the Bank, and the debts due to her, being fully equal to her engagements. What the ultimate result was, whether any loss was sustained by the creditors of the Bank, is not stated.

The sum advanced in the fifty years was not so very great, about one million sterling; and we know not what part of this sum, or whether the whole, was repaid. It is said that the directors, not the burgomasters, had successively advanced. It should be recollected that the city of Amsterdam was guarantee to the depositors, that the Bank derived considerable profits from commission, &c., and that the invasion of the French was probably the cause of the provinces of Holland and West Friezland not fulfilling their engagements.

I think I have shown that Mr. M'Culloch is in error in supposing that the Bank of Amsterdam, by an "ingenious contrivance, shut the coffers of the Bank,"—and, to borrow the language of Mr. M'Culloch, that "an institution which had enjoyed for nearly two centuries unlimited credit in the commercial world, and rendered the greatest services to the country in which it was established," has not rendered itself amenable to so grave a charge. I am not the apologist for any misconduct in the directors of the Bank, but the advocate of the *principles* on which the Bank was established by the enlightened *merchants* of Amsterdam.

The example of this noble institution, great in its two centuries of prosperous duration, and great even in its fall, since it fell only with its country's freedom, and ceased to be a bank only when Holland ceased to be a country, offers a memorable instance how dangerous it is to depart from the strict line of duty, even when the voice of patriotism may seem to demand it.

And let it be remembered that no want of management, or even of integrity in the *Directors of the Bank*, at all militates against the principle of the institution; that the great mercantile republic, the international traders of all countries, should each possess his own stock of bullion; that each individual foreign merchant should depend upon his own integrity in the fulfilment of his engagements, and should be sustained by his own character for "fortune, probity, and prudence."

This Bank had no company of proprietors participating in its profits, and resisted every inducement to issue promissory notes. This illustrious institution of truly *great merchants*, based upon the immutable laws of Justice and Truth, may claim the admiration of future ages; and when generations shall have passed away, the Bank of Amsterdam will offer a bright example of disinterested conduct, worthy of a "sober and religious country," and may serve to guide posterity in the establishment of international treasuries, for the bullion of the Great Mercantile Republic.

CHAP. IX.

ON THE MERCANTILE SYSTEM: ON THE APPLICATION OF THE BONDING PRINCIPLE TO GOLD AND SILVER BULLION: AND ON MONETARY SCIENCE.

ADAM SMITH (b. iv. c. 1. v. ii. p. 235.):—

"The two principles being established, however, that wealth consisted in gold and silver, and that those metals could be brought into a country which had no mines, only by the balance of trade, or by exporting to a greater value than it imported; it necessarily became the great object of political economy to diminish as much as possible the importation of foreign goods for home consumption, and to increase as much as possible the exportation of the produce of domestic industry. Its two great engines for enriching the country, therefore, were restraints upon importation, and encouragement to exportation.

"The restraints upon importation were of two kinds.

"First. Restraints upon the importation of such foreign goods for home consumption as could be produced at home, from whatever country they were imported.

"Secondly. Restraints upon the importation of goods of almost all kinds, from those particular countries with which the balance of trade was supposed to be disadvantageous.

"Those different restraints consisted sometimes in high duties, and sometimes in absolute prohibitions.

"Exportation was encouraged sometimes by drawbacks, sometimes by bounties, sometimes by advantageous treaties of commerce with foreign states, and sometimes by the establishment of colonies in distant countries.

"Drawbacks were given upon two different occasions. When the home manufactures were subject to any duty or excise, either the whole or a part of it was frequently drawn back upon their exportation; and when foreign goods, liable to a duty, were imported in order to be exported again, either the whole or a part of this duty was sometimes given back upon such exportation.

"Bounties were given for the encouragement either of some

beginning manufactures, or of such sorts of industry of other kinds as were supposed to deserve particular favour.

"By advantageous treaties of commerce, particular privileges were procured in some foreign state for the goods and merchants of the country, beyond what were granted to those of other countries.

"By the establishment of colonies in distant countries, not only particular privileges but a monopoly was frequently procured for the goods and merchants of the country which established them.

"The two sorts of restraints upon importation, above mentioned, together with these four encouragements to exportation, constitute the six principal means by which the commercial system proposes to increase the quantity of gold and silver in any country, by turning the balance of trade in its favour."

Adam Smith (b. iv. c. 3. v. ii. p. 204.), in the fourth book of his "Inquiry into the Nature and Causes of the Wealth of Nations," treats largely of the commercial system which then prevailed, and which he endeavours to expose. The principle of this system, as expressed in the annexed extract, was, that gold and silver were the true riches of a country; that to accumulate this gold and silver should be the object of the Government; that this could only be done in a country which had no mines, like England, by exporting more goods than were imported; that the balance would be paid in gold and silver; that if this balance were against England, gold and silver must be sent to pay this balance; that this would impoverish the country, as an importation of gold and silver would enrich the country; that this balance being against or in favour of the country would be determined by the balance of trade. The "balance of trade" was thus made a test, and it became the object of legislation to prohibit importation or diminish it by high duties, and to encourage exportation by drawbacks of duties in many cases, and by bounties in others. The merchants and manufacturers were interested in upholding this system, and the landed interest also; bounties were granted on the exportation of corn, of herrings, &c., and the duties on imported articles were sometimes withdrawn on exportation. High duties were imposed, and sometimes a prohibition upon the im-

portation of manufactured goods, and light duties on the raw material. The country gentlemen and noblemen thought that the importation of gold and silver, or money, would enrich the country; the merchants and manufacturers knew that the system adopted, to promote this exportation and discourage the importation, would enrich themselves, and the landlords thought they should partake of the benefit of the system, by the bounty, on the exportation of corn, and the prohibition to import from abroad, except upon payment of high duties, the corn, and other agricultural produce of foreign nations; competition would be lessened or destroyed, and high prices would be obtained.

It is to be observed, that the interest of the manufacturers and merchants was not put forward as the primary motive. The system was to enrich the *country*, a favourable balance of trade was to enrich the *country*. The balance of trade we hear little of in the present day, but we hear a great deal of the favourable and unfavourable exchange, not from the merchants, and manufacturers, and landlords, but from the advocates of the Bank of England. The *country* now is supposed to be benefited, not by a flow of gold and silver into the pockets of the merchants, and manufacturers, and landlords, but into the coffers of the Bank of England. The country's welfare is supposed to be dependent upon a sufficient quantity of the precious metals being retained in the coffers of the Bank; and the Bank of England and the country are one according to the modern system.

Instead of filling the country with gold and silver, by high duties, and bounties, and drawbacks, the system of the present day is to fill the coffers of the Bank of England in case of need, by means of low, or rather, falling prices, and a losing commerce: until this system be gotten rid of, there will be frequent recurrence to low prices, as the remedy for the apprehensions of the Bank. The commerce of the

country is now in the power of the Bank of England, as it was before in the power of the legislature; for legislative enactment we have substituted the decisions of the Bank parlour; for a responsible Government, composed of King or Queen, Lords and Commons, we have substituted an irresponsible body composed of 24 Directors and a Governor and Deputy Governor. To these we have confided the commerce and prosperity of this mighty empire.

Instead of the mercantile system, supported by merchants, and manufacturers, and the agricultural interest, we have now the monetary system endangering the welfare of merchants, manufacturers, and the agricultural interest. We have not to complain of the severity of the penal enactments, to support the monopoly of the mercantile system, but we have to complain of the *power* vested in the Bank of England, to *support itself*, in case of need, by the losses and distress of commerce; for the mercantile system supported by sanguinary laws, we have Bank management supported by *monopoly*.

Adam Smith (b. iv. c. 3. v. ii. p. 303.) observes:—

"There is no commercial country in Europe of which the approaching ruin has not frequently been foretold by the pretended doctors of this system, from an unfavourable balance of trade."

The same ruin to this country is now foretold by the unfavourable exchange, causing an exportation of the precious metals, and a drain of gold from the Bank of England.

B. iv. c. 1. v. ii. p. 208.:—

"When those countries became commercial, the merchants found this prohibition, upon many occasions, extremely inconvenient. They could frequently buy more advantageously with gold and silver, than with any other commodity, the foreign goods which they wanted, either to import into their own, or to carry to some other foreign country. They remonstrated, therefore, against this prohibition, as hurtful to trade."

Vol. ii. p. 212.:—

"The prohibition of exporting gold and silver was, in France

and England, confined to the coin of those respective countries. The exportation of foreign coin and of bullion was made free. In Holland, and in some other places, this liberty was extended even to the coin of the country. The attention of Government was turned away from guarding against the exportation of gold and silver, to watch over the balance of trade, as the only cause which could occasion any augmentation or diminution of those metals. From one fruitless care it was turned away to another care, much more intricate, much more embarrassing, and just equally fruitless."

May it not be said, that the attention of Government is now turned away from guarding against an unfavourable balance of trade, to watch over the exchanges, as the only cause that can occasion any augmentation or diminution of the gold and silver in *the Bank of England;* that these exchanges are no longer to be influenced by the balance of imports or exports, encouraging exports by bounties and discouraging imports by prohibitory laws, or high duties, but by a *control over prices*, in order to protect the Bank of England from an inconvenient demand for gold to be exported.

It is worthy of remark, that the *foreign merchants* remonstrated against the prohibition to export gold and silver; so the foreign merchants must remonstrate in the present day against the same prohibition, not enforced by law, but contrived by the management of the Bank of England; not because that management prevents their buying advantageously with gold and silver abroad, not for this obvious reason *only*, but for the more stringent and unanswerable reason, that the management lowers the prices of goods, and ruins credit, and destroys markets, in conformity with the modern doctrines of *monetary science.*

ON THE APPLICATION OF THE BONDING SYSTEM TO GOLD AND SILVER.

Great Britain, by its commercial policy in allowing goods to be bonded free of duty, in order to be exported to any part of the world where such goods may be wanted, has rendered herself the emporium of the commerce of the world. These goods pay no duty either on importation or exportation; simply a charge for warehouse rent. The goods are deposited under a perfect confidence that they will be delivered when required. Should not the precious metals be allowed the same privilege? Should any restriction, direct or indirect, be imposed upon the free exportation of gold and silver? Are not these commodities received and deposited under the same confidence, and the same engagement to deliver them when required, as sugar and coffee, and brandy, and rum, and other productions of foreign countries? Should the "most convenient of all commodities for carrying on the round-about foreign trade" be subject to restriction and obstruction in their delivery for exportation from which other commodities are exempt? An emporium of commerce implies necessarily an emporium of the exchanges. Should not the exchanges be free? Is not the promise to pay on demand equivalent to a promise to deliver on demand? Is not the promise to pay on demand 46*l.* 14*s.* 6*d.* the same as a promise to deliver on demand one pound of standard gold? Can any reason be assigned why the promise to deliver sugar shall be unrestricted in its performance, and the promise to deliver gold should be eluded? Is not the promise

of the Bank of England as sacred as the promise of the owner of goods, and of the warehouseman?

The Bank of England restricts the free exportation of the precious metals in various ways. Every obstacle raised to the demand for gold for exportation, is an infringement upon the free trade in gold, and the more indirect the more unjustifiable, whether by giving a shock to credit, and embarrassing trade, or by forcibly reducing prices, and substituting other commodities for gold.

It appears contradictory that Great Britain should encourage the round-about foreign trade, by opening her ports for safe deposit and free influx and efflux of commodities; should encourage foreigners to make our ports the emporium of all sorts of goods for the supply of the world; should promote the carrying trade for the benefit of our shipping, by allowing and inviting foreign merchants to store their merchandise in our bonded warehouses, there to remain till suitable foreign markets are found for their consumption, and should deny to the "Great Mercantile Republic" the same advantage with regard to that commodity which is allowed to be the most convenient of any, facilitating the exchanges of commodities between the different countries, where the immediate productions of one country cannot be exchanged for the immediate productions of the other country; that if Great Britain exports her manufactures to the Brazils, or Russia, or California, or Australia, and receives gold and silver in return; that the gold and silver which have been purchased with English manufactures, and warehoused in the vaults of the Bank of England, under the bond of a solemn promise or engagement to deliver it on demand, shall not be again *freely* exported to America to purchase food, or to Russia to purchase hemp. To affect to encourage the carrying trade for the benefit of the shipping, or the free influx and efflux of merchandise, without payment of duty in the round-about foreign trade, without at the same time allowing the free influx

and efflux of the precious metals, is an evident inconsistency. To affect to encourage the credit of the merchants of this country, based upon "*fortune, probity*, and *prudence*," and at the same time to throw obstacles in the way of performing promises, and thereby undermining the confidence which is the foundation of credit, is most unjust. That credit is equally founded upon "fortune, probity, and prudence," inducing confidence, whatever may be the form of that credit, whether bills of exchange, inland bills, or promissory notes; all rest upon the foundation of confidence in the fulfilment of the *promise*.

The President of the United States has signified the wish, and declared the probability, that New York may become the emporium of the commercial and monetary power of the world, as in the following extract:—

Message of President Polk, 5th December, 1848; *Evening Mail*, Dec. 22. 1848.:—

"If these and other necessary and proper measures be adopted for the development of the wealth and resources of New Mexico and California, and regular territorial governments be established over them, such will probably be the rapid enlargement of our commerce and navigation, and such the addition to the national wealth, that the present generation may live to witness the controlling commercial and monetary power of the world transferred from London and other European emporiums to the city of New York."

It is not the possession of gold and silver mines in Mexico and California, which will procure for New York the preference over European nations to be the emporium of gold and silver; and if it transferred from London to that city, "the controlling commercial and monetary power of the world," we may rejoice at the depository of such a mischievous power being separated from England by the Atlantic. Most strange is it that the President, while inveighing against the power lodged in London, should covet

it for New York. The possession of the American mines could not insure to Spain and Portugal the gold and silver which those mines produced: this wealth will follow industry and commerce, and *security of property*, and the *safe custody of the precious metals*.

If the free and unmolested circulation of the precious metals is required for the convenience of the interchange of commodities between distant countries, it is equally required for the free and unmolested circulation of bills, and for the adjusting the differences, or paying the balances due from nations among themselves: as at the clearing-house in London the payment of millions is accomplished by the payment only of the balances or differences, and these differences again balanced among themselves, till the actual sum paid is minute to a degree which, to the uninitiated, would be incomprehensible; so with the clearing-house in London for foreign bills, or the Exchange, the balances of the international bills may be reduced to a comparatively minute balance, to be remitted in gold or silver upon the great international reckoning. But with the vast transactions of international commerce, the trade of the nations of the earth, what unhesitating performance of the promise should prevail: what a frank unhesitating delivery of the gold and silver stipulated!

The gold and silver *bullion* which is imported and exported for the purpose of exchange with commodities, because manufactures, or colonial produce, or other goods, cannot be profitably sold or purchased, should be considered as merchandise of which it supplies the place. It should be considered only as "the most convenient commodity;" it is sold by weight in exchange for other commodities, and according to its fineness or quality.

It comes within the category of those goods, which are bonded for exportation, which are allowed a free influx and efflux without the payment of any duty. All these bonded goods have a determinate owner,

who sells them, and transfers to another his right to them. They are in no case under the control, much less are they subject to any claim of ownership, on the part of the owner of the warehouse who receives them into his custody. If he should traffic in the same description of goods, he never blends the bonded goods with his private stock, much less does he apply them to the fulfilment of his own private engagements. All these anomalies occur with respect to the precious metals lodged with the Bank of England. They are deposited there by the different foreign merchants who import them, or by those who have purchased them from those merchants who are members of the great mercantile republic. The receipt given to the *depositor* is equal to a bond to deliver on demand gold or silver of equal fineness and weight. The promissory notes are equal to a bond to deliver to the "bearer," and not to any individual proprietor. This lessens not the obligation. The Bank of England traffics with the gold and silver deposited, and with it fulfils its own engagements. The private stock or coin of the Bank of England, and the stock of the depositor, are both, and indiscriminately, applied by the Bank of England to discharge its own engagements. The bullion, when coined, becomes money, and the distinction is lost between "the convenient commodity" of the great mercantile republic and the "money" of the Bank of England. The Bank of England receives the bullion deposited by the owner, under a solemn engagement to deliver it again, whether wanted as a commodity or as coin, and, when its wants require it, appropriates it to *its own use*. The Bank receives it as bullion, and employs it as money. Should not these anomalies be corrected?

The foreign merchants of every commercial country, forming so many branches of the Great Mercantile Republic, should be the guardians and storekeepers of their own gold and silver, as happens with other goods which are bonded for exportation. Every

ounce of gold, and every pound of silver bullion so stored, should have its distinct and appropriate owner, as was the case with the Bank of Amsterdam, which derived its chief value from this assured possession; and as this most convenient commodity when coined of a certain weight and fineness becomes money, when made a legal tender in the payment of debt, the owners may employ their agents (the Exchange Bank) with whom they have lodged this commodity as their bankers, to pay their bills with this bullion, when calculated as coin. They may transfer their right to this bullion in any quantity they please, equivalent to coin or money, the money of exchange, like the Bank of Amsterdam. No one will be able to exercise any right of ownership, or any control over this bullion, but the legal possessor. No one else will have any claim to it. It will be a legitimate foundation of *credit* to the *owner*, and to no *other* person. The owner and storekeeper will be recognised in their separate characters. There will be no curtailment of credit, but a distribution among the separate owners. The merchants will be independent, self-supporting, self-dependent, assisting each other, knowing what they can rely upon, and will be liberated from all control. The bullion deposited by each individual will be so much capital or dead stock, and nothing more.

The issuer of promissory notes may consider one fifth of gold and silver sufficient to meet the demands on him for cash, in exchange for his notes. The gold and silver are to him money in the shape of coin. This may also be considered a dead stock; by this he supports his credit, inasmuch as the payment of his notes *on demand in gold* requires it; but the banker's credit does not *depend* upon this gold and silver, but upon the opinion entertained by the public of his "fortune, probity, and prudence." But the foreign merchant has no reliance upon his stock of *gold* for his *credit*, nor does it at all depend upon his paying *his bills in gold*. He deals with bullion only

as a commodity, as a most convenient commodity to remit, wherewith to pay a balance of debt, or to purchase other commodities. As the casks of tobacco in a tobacco warehouse, of which there are constantly many thousand hogsheads in bond, belong to separate individuals, are a dead stock, a valuable portion of each individual's capital, so the separate portions of bullion would be a valuable portion of each individual's capital. All commerce is *private* enterprise, and *private* industry. In *commerce* there is or ought to be no such thing as national credit, national discredit, national distress, or national pressure on the money market: no such thing as national grievance, or ruin from the state of the exchanges. All is private, personal, the affair of the individual. It can be *monopoly* only that produces *general* pressure, that confounds the unprincipled speculator with the enlightened merchant and industrious tradesman, that produces a general shock to credit, and, like the Upas tree, paralyses exertion. That oppression can be produced only by monopoly, sanctioned by law.

Instead of lowering prices in order to encourage the exportation of commodities, and which must be injurious to all the holders of merchandise, whether it be foreign produce warehoused in England, and manufactures, the appropriate objects of exportation, or whether it be the commodities of home consumption, may it not be worthy of the grave consideration of the *advocates of the system*, that would influence the exchanges by the means of low prices, whether it would not be equally politic, and wise, and economical, to revive the justly repudiated system of bounties, limiting the articles on which the bounty is to be granted to a few commodities of general consumption abroad? This would be profitable to the owners of the preference manufactures, or produce, and would be taxing the country only to a small extent, in comparison with the general tax, in low prices, now levied on commerce and industry, for the sake of bringing gold to the coffers of the Bank of England. When-

ever the Bank entertained apprehensions that their funds might be exhausted, or so reduced as to endanger the *convertibility* or rather payment of the note, if the Government were to offer a bounty of 20 per cent. on some particular commodities, and induce the holders to export them at prices that would leave them a profit, there would be no derangement of markets generally, nor beyond the supposed necessity of the occasion. If we wished to stop the export of five millions of gold and silver, and were to engage some houses to export goods to this amount, allowing them 20 per cent., in order to insure them a profit, the country would pay one million in the shape of a tax, the merchants would gain a profit, a less *general* derangement of commerce would ensue, and the Bank of England would retain its gold. May we not recommend this scheme to the *advocates for the monopoly of the Bank of England?*

"Ridiculum acri
Fortius et meliùs magnas plerumque secat res."
HORACE.

"For ridicule shall frequently prevail,
And cut the knot, when graver reasons fail."
FRANCIS.

Adam Smith (b. iv. c. 5. v. ii. p. 313.): — Of bounties.

"We cannot give our workmen a monopoly in the foreign, as we have done in the home market. We cannot force foreigners to buy their goods, as we have done our own countrymen. The next best expedient, it has been thought, therefore, is to pay them for buying. It is in this manner that the mercantile system proposes to enrich the whole country, and to put money into all our pockets, by means of the balance of trade."

The monetary system has succeeded to the mercantile system; bullion in the Bank of England to the balance of trade, low prices to the bounty, low prices to the benefit of the foreigner, who is induced to buy cheap goods at the expense of the manufacturer, merchants, and producers, who are presented with the "screw" instead of a bounty.

It is very remarkable that Sir R. Peel dwells upon the necessity of securing the convertibility of the Bank of England note, in other words, the payment of the holders of bank notes, but says little or nothing of paying gold to the depositors, and assumes that a demand for gold can only arise from the value of the note not being equivalent to gold — as if the *note* could, and would supply the place of the gold, if both *were* of equal value. The demand for gold for exportation, and the demand for coin for circulation, each arises, from separate causes, from different people, and for different objects, but in neither case from the bank note not being equal in value to the coin. This is a fundamental error in Sir R. Peel's theory. As this demand for gold for exportation is quite distinct from the demand for coin for bank notes for circulation, and as it is the demand for exportation which alarms the Bank Directors, we shall lessen their assumed claim to depress prices, in proportion as we exempt them from this demand.

If the power of the Bank of England over prices were removed, in whatever proportion the foreign merchants and exporters of commodities become their own storekeepers for bullion, for the payment of their foreign bills, for the payment of foreign balances of debt, and for the supply of the round-about foreign trade of consumption, in the same proportion they would relieve the Bank of England and would relieve all other banks; and there seems no reason why the experiment may not be made on a small scale, as well as on a large scale. If the Government will make bank crowns of 1 oz. standard silver, or gold pounds of $\frac{1}{4}$ oz. of standard gold, as explained before, a legal tender for the payment of foreign bills drawn in that money, this mode of payment may be adopted to any extent the foreign merchants please. If at the same time an Exchange Bank were established in London, for the safe custody of bullion under proper guarantees upon the plan proposed, the *experiment* might be safely tried, and no one could be injured. There

would be no Board of Proprietors, and the depositors of the bullion, the most *convenient commodity*, could not suffer loss, any more than the depositors of sugar or coffee in a bonded warehouse.

This system is so very important, as doing away with all uncertainty in the exchanges, with all apprehension arising from the exportation of bullion, which could only affect the owners and exporters as it would the owners and exporters of any other commodity, that it may be well worth the consideration of the foreign merchants connected with the colonies, whether an exchange bank may not be established by them with *peculiar* advantage; the colonial trade being carried on at a considerable distance from London, and Liverpool, and Dublin, and Glasgow, it may be of vast importance for merchants connected with those remote districts, always to have a supply of gold and silver by which to make payments, or shipments of this most convenient commodity. The more remote the country, the more uncertain the markets; and the greater the fluctuation in the markets, the more needful is that commodity, which comparatively is liable to no fluctuation. The colonists and the merchants connected with the colony, would then have an international money, simple, constant in supply, and a credit which would not depend, in any degree, upon the greater or smaller amount of bullion in the Bank of England or any bank. They would not regulate their commerce by the state of the exchanges, but by the state of their own funds, and their own credit, founded upon their "fortune, probity, and prudence." The plan might be gradually extended, and adopted according to its ascertained merit. There can be no risk in following the path of truth and justice, and such would be the path of those *truly great merchants*, who should depend only upon their own resources, and their own character; but the power of the Bank of England over prices, must be abandoned.

The country and the foreign merchants would be

benefited by the arrangement. The foreign merchants in exporting bullion, instead of commodities, when not offering abroad a remunerative price; and every productive class in the country would be relieved by the depressing influence of the Bank of England on prices being withdrawn.

If the merchants and manufacturers will not follow the most noble example of the merchants of Amsterdam, may it not become the duty of the State to establish a warehouse for the safe custody and delivery of bullion, on the same principle that they establish a tobacco warehouse for the safe custody and delivery of bonded tobacco? Security of property from all arbitrary interference which may deteriorate its money price, is as much a duty of the State as protecting it from damage or violence, and as important as revenue, and much more so. It will be only necessary to provide for the safe custody of the bullion, and its delivery to the lawful claimant. The storekeeping department will thus be provided for; and the merchants may find it for their interest to avail themselves of such a safe custody, and themselves make arrangements for the international bank. But will not the merchants undertake the whole business, in all its branches, providing the needful store or warehouse, and separating entirely the bullion from all control, either of a bank of issue or a bank of loan?

The bullion in the exchange or international bank will be solely at the disposal of each depositor, the cash balances will represent that bullion. The merchant will receive no interest for the bullion, any more than he does now for *bonded* tobacco, and all the productive industry of the country will be free from any arbitrary depression of prices, independently of supply and demand, that the products of their industry may be substituted, as now, for bullion; in order to secure, in the language of the school of "monetary science," the *convertibility* of the Bank of England note.

But the establishment of international exchange

banks, and treasuries for the safe custody of bullion, should be the work of the *merchants* and *manufacturers* of the great mercantile republic: let every important member of that community discharge the duty imposed upon each. Let London, Dublin, Glasgow, New York, Havre, Paris, Amsterdam, every member have its own separate treasury and exchange bank. The interest of one is the interest of all; and the interest of all is the interest of each. Let bullion be stored in each emporium of commerce, and the merchants of each assert their independence of all national banks.

What can be more sacred than the credit of the foreign merchant, a member of the great mercantile republic? with whom should he entrust this invaluable attribute, the result of his "fortune, probity, and prudence," by which he hopes to acquire and maintain the confidence of the commercial community far as his name is known, and the power of purchasing the products of the East and of the West, of the North and of the South, of all countries within the sphere of international traffic; with whom should he entrust this valuable power? The answer is obvious: to "*no one:*" he should be the sole guardian of *his own character and reputation*, and should be responsible only to God, his conscience, and the laws of his country. But how can he accomplish this, without having in his own possession the *safety fund* which is needful to *protect him* from the uncertainty of markets? Shall he surrender this ægis of his credit to a corporate body?—this bullion, this *most convenient commodity*, to the directors of a national bank, or to any other managers having a distinct interest, and by an action irresponsible and unseen, baffling his calculations, and endangering his credit and that of his distant correspondents? Shall he complain of a despotic rule over prices, in order to evade a promise or an obligation at his cost, and not keep the remedy in his own custody? Is he so fallen, so humiliated, that he dare not be the keeper of his own

"fortune, probity, and prudence," of his own character and reputation? Where shall we seek the cause of this voluntary dependence? Should not the members of the great mercantile republic adopt the same system as was found so efficient by the enlightened merchants of Amsterdam? Truth and justice will triumph in every state, whether it be the small republic or the mighty empire.

The present period, as respects the more abundant supply of the precious metals, bears an analogy to that of 1609, when the Bank of Amsterdam was established.

Adam Smith observes (b. i. c. 11. v. i. p. 266.):—

"The discovery of the mines of America, it is to be observed, does not seem to have had any very sensible effect upon the prices of things in England till after 1570, though even the mines of Potosi had been discovered more than twenty years before."*

P. 267.: —

"Between 1630 and 1640, or about 1636, the effect of the discovery of the mines of America, in reducing the value of silver, appears to have been completed, and the value of that metal seems never to have sunk lower, in proportion to that of corn, than it was about that time."

In 1609 there was a considerable influx of the precious metals, and a prodigious quantity had been in the previous years introduced into Europe. At the present time, the quantity imported appears to be increasing, and an amazing quantity has also been imported in the last few years, since the discovery of gold in California and Australia. So far there is a similarity in the circumstances of the two periods; and the present would appear to be a convenient and suitable time for our *merchants* to establish, in imitation of the merchants of Holland, an exchange bank, a treasury for the safe custody, for the deposit and delivery of the precious metals. The commerce of Holland, in 1609, may have borne as large a proportion

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* See Adam Smith, p. 271.

to the commerce of the world as does at present that of Great Britain. The bullion dealers would avail themselves of such a bank; they would deposit and withdraw as suited the convenience and wants of commerce; they would buy of the importing merchants, and would be always ready to furnish the gold or silver that might be required by those who had no deposit themselves; they would act as did the bullion dealers in Amsterdam, of whom it is said by Adam Smith. (B. 4. c. 3. v. 2. p. 284.)

"The far greater part of the bank money, or of the credits upon the books of the Bank, is supposed to have been created, for these many years past, by such deposits which the dealers in bullion are continually both making and withdrawing."

As the dealers in stock supply the demands for stock on the London Stock Exchange, buying and selling as may be required, and in any quantity, so the dealers in bullion would supply the bullion required, as the wants of commerce, either for bills of exchange, or the round-about foreign trade might require: they would be dealers in bullion, as the stock-brokers are dealers in stock: and both would and should be distinct from any bank, and free from all control.

CHAP. X.

In the examination of the rule which determines the circulation of coins, the conclusion is forced upon us, that, in spite of all laws, private interest will alone prevent their being melted or exported: "Virtus post nummos."

However melancholy this consideration may be, it is satisfactory to find that self-interest may be made to correspond with the public welfare: that the interest of the individual and the interest of the State may be made the same: that the public may have the advantage of an abundant supply of ancillary coins, without danger of their being melted or exported; and, at the same time, the State may derive some revenue from the seignorage that is imposed upon them. These combined interests ought to insure to all countries the benefit of each having its own appropriate national coins, to the exclusion of all foreign coins, the circulation of which should be prohibited.

Le Blanc, p. 345.: —

It is observed by the Court of the Mint in their remonstrance to King Henri III. of France, that

"After the introduction of foreign money only disorder and confusion had prevailed in respect of the coins: And that it belongs only to the Prince to coin money for his subjects, because the effigies and arms thereon engraven testify to them, the superiority over them which God has conferred upon him; that they may render to him obedience, and pay the taxes which belong to him: and are the sure means of perpetuating your name and arms thro' all countries, and of preserving them for ever to posterity; for, as was said by one of the ancients, the coins of princes are so many statues, which are erected to them

throughout the world: and, in fact, of all that the Greeks and Romans have been able to do, in order to preserve for ever their memory, no monument has remained to us more entire than their coins."

"Paulò majora canamus."

At length a brighter prospect opens to our view: we now appeal to the immutable principles of Justice and Truth: founding our reasonings on this basis, let us see if we cannot dispel the mystery, which has so long enveloped and obscured the much agitated question of the currency.

Shall we hesitate to ascend, with firm and unfaltering step, to that temple,

"Edita doctrinâ sapientum templa serena,"
LUCRETIUS,

where Faith uncorrupt, the handmaid of Justice, and Truth undisguised preside?

"Justitiæ soror,
Incorrupta fides, nudaque veritas."
HORACE.

Let us listen to Adam Smith as the professor of moral philosophy in the University of Glasgow:—

"Though Nature, therefore, exhorts mankind to acts of beneficence, by the pleasing consciousness of deserved reward, she has not thought it necessary to guard and enforce the practice of it by the terrors of merited punishment in case it should be neglected. It is the ornament which embellishes, not the foundation which supports the building, and which it was, therefore sufficient to recommend, but by no means necessary to impose. Justice, on the contrary, is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society, that fabric which to raise and support seems in this world, if I may say so, to have been the peculiar and darling care of Nature, must in a moment crumble into atoms." *

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* Adam Smith's "Moral Sentiments," part ii. sect. 2. v. i. p. 215.

The same eminent author observes: —

"There is, however, one virtue of which the general rules determine with the greatest exactness, every external action which it requires. This virtue is justice. The rules of justice are accurate in the highest degree, and admit of no exceptions or modifications, but such as may be ascertained as accurately as the rules themselves, and which generally, indeed, flow from the very same principles with them. If I owe a man ten pounds, justice requires that I should precisely pay him ten pounds, either at the time agreed upon, or when he demands it. What I ought to perform, how much I ought to perform, when and where I ought to perform it, the whole nature and circumstances of the action prescribed, are all of them precisely fixed and determined. Though it may be awkward and pedantic, therefore, to affect too strict an adherence to the common rules of prudence or generosity, there is no pedantry in sticking fast by the rules of justice. On the contrary, the most sacred regard is due to them; and the actions which this virtue requires are never so properly performed, as when the chief motive for performing them is a reverential and religious regard to those general rules which require them." *

We now bid adieu to the rivalry of the gold and silver coins, the pounds and the shillings and the pence, and we rest upon the word of Promise: sacred, inviolable word! Who shall dare to question the sanctity of a promise, or hope to violate with impunity its solemn obligation?

The Almighty himself is bound by his promise. It was this that cheered the great prophet of Israel, while wandering through the desert's thirsty plains; and when from Nebo's Mount he viewed the land of Promise.

Shall we fall down and worship the image portrayed in the dream of the Chaldæan tyrant, dazzled with the brightness of the *fine gold*, and overlook the feet of iron and clay? Shall we have regard to the gold, and disregard evasion in the Promise?

We shall find that any monetary system founded

* Adam Smith's "Moral Sentiments," part iii. sect. 6. v. i. p. 439.

upon other basis than that of Justice and of Truth, will share the fate of Nebuchadnezzar's image when assailed by

(V. 34.) * "That stone (of Truth), cut out without hands, which smote the image upon his feet that were of iron and clay, and brake them to pieces."

(V. 35.) "Then was the iron, the clay, the brass, the silver, and the gold, broken to pieces together, and became like the chaff of the summer threshing floors; and the wind carried them away, that no place was found for them; and the stone, that smote the image, became a great mountain and filled the whole earth."

"Magna est veritas et prævalebit."

THE BANK OF ENGLAND.

The following statement respecting the Bank of England is taken from Adam Smith's "Wealth of Nations," b. ii. c. 2. vol. ii. p. 65.:—

"The Bank of England is the greatest bank of circulation in Europe. It was incorporated, in pursuance of an Act of Parliament, by a charter under the great seal, dated the 27th of July, 1694. It at that time advanced to Government the sum of one million two hundred thousand pounds, for an annuity of one hundred thousand pounds: or for 96,000*l.* a year interest, at the rate of eight per cent., and 4000*l.* a year for the expense of management. The credit of the new Government, established by the Revolution, we may believe, must have been very low, when it was obliged to borrow at so high an interest.

"In 1697, the Bank was allowed to enlarge its capital stock, by an ingraftment of 1,001,171*l.* 10*s.* Its whole capital stock, therefore, amounted at this time to 2,201,171*l.* 10*s.* This ingraftment is said to have been for the support of public credit. In 1696, tallies had been at forty, and fifty, and sixty per cent. discount, and Bank notes at twenty per cent.—(James Postlethwaite's History of the Public Revenue, page 301.) During the great recoinage of

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* Daniel, c. ii.

the silver, which was going on at that time, the Bank had thought proper to discontinue the payment of its notes, which necessarily occasioned their discredit.

"In 1708, the credit of Government was as good as that of private persons, since it could borrow at six per cent. interest, the common legal and market rate of those times.

"In 1722, the Bank had advanced the public 9,375,027*l.* 17*s.* 10½*d.*; and its capital stock amounted only to 8,959,995*l.* 14*s.* 8*d.* It was upon this occasion that the sum which the Bank had advanced to the public, and for which it received interest, began first to exceed its capital stock, or the sum for which it paid a dividend to the proprietors of bank stock; or, in other words, that the Bank began to have an undivided capital, over and above its divided one. It has continued to have an undivided capital of the same kind ever since. In 1746, the Bank had, upon different occasions, advanced to the public 11,686,800*l.* and its divided capital had been raised by different calls and subscriptions to 10,780,000*l.* The state of these two sums has continued to be the same ever since. In pursuance of the 4th of George 4., c. 25, the Bank agreed to pay to Government for the renewal of its charter 110,000*l.* without interest or repayment. This sum, therefore, did not increase either of those two other sums.

" The dividend of the Bank has varied according to the variations in the rate of the interest which it has, at different times, received for the money it had advanced to the public, as well as according to other circumstances. This rate of interest has gradually been reduced from eight to three per cent. For some years past the Bank dividend has been at five and a half per cent.

" The stability of the Bank of England is equal to that of the British Government. All that it has advanced to the public must be lost before its creditors can sustain any loss. No other banking company in England can be established by Act of Parliament, or can consist of more than six members. It acts not only as an ordinary bank, but as a great engine of State. It receives and pays the greater part of the annuities which are due to the creditors of the public; it circulates exchequer bills, and it advances to Government the annual amount of the land and malt taxes, which are frequently not paid up till some years thereafter. In those different operations, its duty to the public may sometimes have obliged it, without any fault of its directors, to overstock the circulation with paper money. It likewise discounts merchants' bills, and has upon several different occasions, supported the credit of the principal houses, not only of England, but of Hamburgh and Holland. Upon one occasion, in 1763, it is said to have advanced for this purpose, in one week, about 1,600,000*l.*, a great part of it in bullion. I do not, however, pretend to warrant either the greatness of the sum, or the shortness of the time. Upon other occasions, this great Company has been reduced to the necessity of paying in sixpences."

The above description of the Bank of England informs us, that it is "the greatest bank of circulation in Europe;" that, from the time of its establishment in 1694 to 1722, it had advanced more than its capital to the public, and had a reserve fund corresponding to that which is now called the "Rest," being the excess of profits beyond the sum paid in dividends; and that, in 1696, tallies had been at 40, 50, and 60 per cent. discount, and bank notes at 20 per cent. discount, which perhaps is not to be wondered at, *as it had discontinued the payment of its notes* during the confusion which resulted from the recoinage of the silver coin in King William's reign.

* "The Bank had received the clipped money at its full value. They had taken guineas at thirty shillings; and when the notes issued by them in exchange came in, there was not sufficient specie to meet the daily demand. Had they paid in full, they must soon have been drained of specie, and they resorted to the plan of paying cash, at first in instalments of 10 per cent. once a fortnight, and, afterwards, 3 per cent. once in three months. But that this was only a temporary pressure arising from extraordinary circumstances, and not discredit, was proved from sealed bills, bearing interest, being received by their creditors in lieu of specie. Bank notes were advertised at 20 per cent. discount, but it must be remembered that guineas were at 50 per cent. premium."

That the Bank of England acts not only as an ordinary bank, but as a great engine of State, circulating exchequer bills, and advancing to Government the annual amount of the land and malt taxes; that it also discounts merchants' bills, and has, upon occasion, supported the credit of the principal houses, not only of England, but of Hamburgh and Holland, advancing in one week, in 1763, about 1,600,000*l.*, a great part of it in bullion. "On other occasions, this great company has been reduced to the necessity of paying in sixpences."

I am quite aware of the establishment of Joint-

* See History of the Bank of England, by John Francis, v. i. p. 76 London, 1848.

Stock Banks, and also of the more extensive operation of the Bank of England since Adam Smith wrote; but these appear to be of the same nature, and may have borne as great a proportion then to the commerce and finance of that period, as its present operations bear to the commerce and finance of the present period.

No doubt is expressed by Adam Smith of the competency of the Bank to discharge these various offices; nor is any remedy proposed for obviating the necessity of paying occasionally in sixpences, except the alteration he suggested (b. i. c. 5. v. i. p. 52.), that silver coin should not be a legal tender for more than a guinea, and should be coined of less weight than the proportional value of silver to gold, but omitting a necessary condition, that the State only should have the privilege of coining the silver coin. This regulation was not suggested by the difficulty of the Bank meeting its engagements, but for the purpose of preventing the exportation of the heavy silver coin.

* P. 40. Before 1759, the Bank issued notes for no lower a sum than 20*l.*; in that year it commenced issuing notes and post bills for 15*l.* and 10*l.*

In 1794, the Bank commenced issuing notes for 5*l.*

In 1797, the Bank suspended cash payments, which suspension was continued by Acts of Parliament till 1821, when the Bank commenced paying off their notes under 5*l.* in gold; and, in January 1826, an Act was passed (p. 66.) "to limit, and after a certain period to prohibit, the issuing of promissory notes under a limited sum in England." (7 Geo. 4. c. 6.) By this Act, no further notes under 5*l.* were allowed to be stamped, and those already stamped could not be issued or re-issued after the 5th of April, 1829, under a penalty of 20*l.*

P. 58. "In 1822, an Act was passed permitting the

* The "History and Principles of Banking," by James William Gilbart, 3rd ed. London, 1837.

"country bankers to continue the issuing of notes "under 5*l.* until the expiration of the Bank Charter in "1833. As the law previously stood, these notes were "prohibited on the resumption of cash payments by "the Bank. The Directors made the following refe- "rence to this subject, in a memorandum they deli- "vered to the Parliamentary Committee of 1832:"—

"By the resolution of the House of Commons of 1819, the Bank were required, within four years, to pay off in gold the amount of their one-pound notes then in circulation (about 7,500,000*l.*); further, to provide the coin for paying off the country small notes in 1825 (about seven or eight millions more); in addition to which, the necessity was imposed of providing the requisite surplus bullion for insuring the convertibility of all their liabilities, which addition of bullion to their then stock, could not be estimated at less than 5,000,000*l.*, making in the aggregate 20,000,000*l.* of gold, as necessary to be provided from foreign countries, within the space of four years from 1819.

"That supply of gold could only be purchased by reduced prices of commodities; the Bank withdrawing a given amount of securities, in the first instance, the notes for which might be re-issued in payment of the gold as imported. The low prices and general state of trade from 1819 to 1821, and the withdrawal of the Bank's securities, enabled the Bank to cancel their small notes in the latter year, and in the following (1822), three years prior to the time fixed by Parliament, they were in a situation to furnish the gold for paying off the country small notes, when, without any communication with the Bank, the Government thought proper to authorise a continuance of the circulation of country small notes until 1833. The consequence of that measure was, to leave in the possession of the Bank an inordinate quantity of bullion (14,200,000*l.* in January 1824), and further to afford the power of extension to the country bankers' issues, which, it is believed, were greatly extended from 1823 to 1825."

We are informed, by the above memorandum, that the supply of gold "could only be purchased by reduced prices of commodities;" and that the low prices and general state of trade from 1819 to 1821, and the withdrawal of Bank securities, enabled the Bank to cancel their small notes in the latter year; and in the following year (1822), three years before the time fixed by Parliament, they were in a situation to furnish gold for paying off the country small notes; the Bank had also to provide about five millions of

bullion for insuring the convertibility of all their liabilities; altogether amounting to 20,000,000*l.*

Horsley Palmer, Esq., Governor of the Bank (Evidence, p. 21. 723.):—

"There is no means of supplying the Bank with gold, excepting only the diminution of the amount of Bank notes, which immediately contracts the currency, and lowers prices, by increasing the value of money."

P. 18. (28.):—

"The Bank of England being conducted on safe and certain principles, has nothing to fear from foreign demand. No caution, no prudence, no principle of management, can render it entirely safe from being drained of its specie, by internal panic or political discredit."

In the memorandum, it is said, "the supply of gold could only be purchased by reduced prices of commodities." It seems to me a strange expression to purchase by "*reduced prices* of commodities." To purchase with commodities at reduced prices, might raise the inquiry, What commodities? But the Bank has no commodities wherewith to purchase. In the words of Adam Smith (b. ii. c. 5. v. ii. p. 138.):—

"This gold and silver, like the tobacco of Virginia, must have been purchased with something that either was the produce of the industry of the country, or that had been purchased with something else that was so."

But the Bank *purchases* the gold and silver without any produce of industry of its own. Still, some one must have paid with commodities for the gold and silver, from which sort of payment the Bank is exempt.

It is said that "the Bank of England, being conducted on safe and certain principles, has nothing to fear from foreign demand." What are those "safe and certain principles?" Are they not stated to consist in the judicious exercise of the power to lower prices, when the occasion may require, by a control over the currency, by the diminution of the amount of bank notes "in circulation?"

At a later period, in a pamphlet* by J. Horsley Palmer, Esq., the following passage occurs, p. 23.:—

"We must keep in mind that England is the centre of the whole commerce of England and America, if not the world; and any hasty or unnecessary step taken, will not only affect the credit and prices of this country, but, to a certain degree, those of all parts of the continent, from whence we are to obtain that bullion which we have lost. The causes of that loss, so seriously affecting the credit and commercial transactions of the country, demands the closest investigation. The fall in price of almost all the leading articles of raw produce (sugar, coffee, tea, silk, cotton, piece goods, metals, drugs, &c.), from the 1st of July last, when the rate of interest was first advanced, has not been less than from 20 to 30 per cent."

Whether the Bank of England contracts the circulation, or, by raising the rate of discount, shocks the commercial credit, both operations have one object in view, which is, by lowering prices, to bring back the gold to the coffers of the Bank.

The Governor of the Bank of England states his opinion, that circumstances may arise, when it may be impossible for the Bank to retain the specie; namely, "an internal panic or political discredit;" and that the only way to procure bullion is to lower prices; and that a fall of 20 to 30 per cent. took place in the prices of the leading articles of commerce after the Bank raised the rate of discount.

If, on the return to cash payments, the general state of trade and low prices, from 1819 to 1821, enabled the Bank to acquire bullion to the extent of twenty millions, is it not fair to conclude that the action of the Bank may have contributed to produce the depression? This state of things enabled the Bank to meet its engagements three years before the time fixed by the Government. It is certain that, if not the proximate cause, the Bank was the original cause of much of this distress: if the Bank had not suspended payments, this reaction would not have occurred. It may appear to some extraordinary that

* Causes and Consequences of the Pressure upon the Money Market. By J. Horsley Palmer, Esq. London. 1837.

the Bank could procure the bullion three years before the stipulated time; but the greater the shock to credit, the greater the depression of trade and the lower the prices, the more intense the effect on the value of commodities the more unprofitable is commerce, and the less employment there will be for the two instruments of commerce—credit and bullion. The Governor expresses himself alarmed at the loss of bullion which the Bank had sustained, and at the effect it might have upon credit and prices; the Governor does not contemplate the power of the Bank of England to repair its loss from its own property, but from the low prices of the commodities of other people. Was it not to uphold the credit of the Bank, and not to uphold "public and private credit"? Public and private credit would not be strengthened by reduced prices of commodities, by a loss to the owners of those commodities of 20 to 30 per cent.; but unprofitable traffic would occasion a stagnation of commerce, and the unemployed bullion would flow into the coffers of the Bank, and the exportation of gold would cease: and it ought to be clearly understood, that the interest of the Bank is not, in this proceeding, identified with the interest of the merchants and manufacturers: it can never be the interest of the latter, that the prices of merchandise should be lowered by an operation quite independent of supply and demand

In the commercial concerns of this country, a party is introduced whose interest, as bankers, may be quite distinct from the interest of the country, and upon whose operations may depend the prosperity or misfortune of the trading community, and indirectly acting upon the commerce of the whole world. The gold may be wanted by foreign Governments in case of war, or on account of financial operations of states, as was the case with America; or in the legitimate use of bullion for the purposes of the roundabout foreign trade, as explained in a former part of this treatise, having no connection with the credit

of Bank of England notes, or of commercial credit generally.

It is quite clear that the Bank of England gave no *equivalent* for the fourteen millions of gold which they held in January 1824; this "inordinate quantity of bullion" was imported by the great mercantile republic, and was deposited in the Bank of England, as any other foreign commodity might have been deposited in a bonded warehouse, waiting till a demand should arise for it. The Bank had given a solemn undertaking, in the shape of Bank notes, or a credit, that they would restore it on demand. When the Bank withdrew their small notes from circulation, and gave gold in exchange, they did not cancel their debt, or in any degree lessen it. They owed still the same sum, but to a different party. They owed it in the form of credits which they had given, or bank notes which they had given, that is, promises to pay the gold on demand. They took the gold imported by the "great mercantile republic," and with it fulfilled their contract with the "British public." They withdrew the gold from international circulation, and locked it up in the national circulation; and for the gold which should have supplied the demand for the international circulation, were substituted, by means of the low price, the produce and manufactures of the merchants and manufacturers.

The bullion employed in the round-about foreign trade of consumption by the great mercantile republic, the international traders of all nations, is not only a safety fund, but it is also a corrective fund. In a period of very high prices from speculation or other causes not connected with the cost of production, the bullion is exported instead of commodities, and this cessation of demand occasions a fall in the prices, at the same time that the influx of commodities is checked by the reduced demand and lower scale of prices. In a state of unnaturally depressed prices, the influx of bullion, instead of commodities, lessens the supply, and tends to raise the prices of those com-

modities. The influx of bullion has a tendency to raise prices when too depressed, and the efflux of bullion has a tendency to lower prices when too high. This corrective influence is exerted to bring commodities to their natural price, to raise it when too depressed, and to reduce it when too high: these operations should be quite independent of the currency. The cost of production, with a fair remuneration, according to the existing state of society, is what Adam Smith calls the "natural price;" and he calls the *market* price, that which results from the effectual demand and supply. He observes (b. i. c. 7. v. i. p. 77.):—

"The natural price, therefore, is, as it were, the central price, to which the prices of all commodities are continually gravitating. Different accidents may sometimes keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this centre of repose and continuance, they are constantly tending towards it."

The international bullion is the great instrument in restoring prices to this natural state between buyer and seller; and how unjust is it for any third party, neither buyers nor sellers, neither importers nor exporters of any commodities, to interfere with this safety and corrective fund, for the purpose of enabling themselves either to escape from the performance of their contract to deliver gold on demand, or to procure that gold at the expense of the merchant and manufacturer, to the great detriment of commerce and of the country!

How desirable that this bullion should be in the custody of the individuals of the great mercantile republic!

Mr. Horsley Palmer stated, in his evidence before the Committee on Banking, in 1832, p. 6.*:—

"(P. 72.) In ordinary times, in a full period of currency, and

* A Digest of the Evidence on the Bank Charter, 1832.

at a par of exchange, the Bank regulates its issues by investing in securities bearing interest a given proportion of the deposits, and the value received for the notes in circulaton; the rest is kept in coin or bullion; two-thirds in security and one-third in bullion, the circulation being regulated afterwards by the course of exchanges with foreign countries."

P. 7.:—

"(p. 120.) A demand on the Bank for gold to be exported is the only criterion of an unfavourable exchange, and the inward flow of gold is the only indubitable proof that the exchanges are favourable."

P. 8.:—

"(p. 129.) A par of exchange, in the language of the Bank, means no demand for bullion to be exported.

"(p. 166.) But private paper is the worst means which a bank of issue can have to regulate its notes; it extends the circulation dangerously, and it interferes with private bankers."

"The chief functions of the Bank are the supply of a paper circulation to the public, and to be a safe deposit for the public money, and for the money of individuals who prefer a public body to a private banker.

"The Bank of England keeps its notes in circulation by the securities they hold, or the bullion they possess; and they provide for the continual issue of paper by purchase in the market, when any part they hold is redeemed or paid off, and these purchases are necessary for a due regulation of the general currency of the country."

From this evidence it appears that the chief function of the Bank, as respects the currency, was to supply the public with a paper circulation by an interchange of securities, with bank notes; that the principle which was to govern the Bank in determining when the circulation was full, was the state of the exchanges, which was ascertained by the demand for bullion for exportation; and that it was the principle of the Bank to keep two-thirds of their deposits and circulation in securities, and one-third in bullion; that the exchanges were supposed to be at par, when there was no demand for bullion for exportation.

It would follow from this, that a wholesome or safe state of the circulation ought to co-exist with there

being one-third of the amount of deposits and circulation, in bullion or coin, at the Bank.

This rule appears to have been quite nugatory, and not to have been acted upon by the Bank.

Samuel Jones Loyd, Esq., in his "Remarks on the Management of the Circulation," &c., expresses (p. 22.) his high approbation of a plan suggested by the Governor and some of the Directors, in their examination before the Committee: —

"It was proposed to take 'the period of a full currency, and, consequently, a par of exchange,' and to invest and retain in securities two-thirds of the available funds of the Bank, and to hold the remaining third in coin and bullion. This being done, the Bank was thenceforth to retain the aggregate amount of the securities unaltered, and whatever demand might arise from the action of the public, in presenting notes for payment, was to fall exclusively upon the coin and bullion."

P. 24. Mr. Loyd approved of it "upon the assumption, that the plan in question was to be considered as applicable exclusively to the management of the currency;" and it failed, in his opinion, because, "in obedience to a necessity, real or supposed, the authors of the rule acquiesced in the application of it indiscriminately to the general management of the whole concern, and, in so doing, they diminished its simplicity, and altogether destroyed its efficiency." — (Published in 1840.*)

P. 26.: —

"First. For the simple and exclusive purpose of regulating the circulation of the country, it leaves us without any rule whatever; and accordingly we find, by the published returns, that no fixed relation exists between the amount of bullion and the amount of circulation.

"Second. The circulation may decrease whilst the bullion is increasing; or it may increase whilst the bullion is decreasing. We have had practical examples of each kind within the last few years.

"Third. The bullion, through the demands of the depositors, may leave the Bank coffers in large amounts, in fact, it may be wholly drained out, without any contraction of the circulation,

* Remarks on the Management of the Circulation, &c. By Samuel Jones Loyd.

and therefore without any effect being produced upon prices or foreign exchanges, by means of which the continuance of the drain may be checked. This is a possibility: it cannot strictly be said to have occurred, though the condition of the Bank has lately approximated very closely to this state of things.

"It is further to be observed, that none of these results could occur under the application of the rule in question, strictly and exclusively, to the management of the circulation: it is only when banking transactions, as well as those of currency, are brought under its operation that these contingencies arise."

In proof of the inapplicability of the rule it is stated, p. 40:—

That the securities were, in	January 1839 . . .	£21,680,000
Ditto	October 1839 . . .	24,939,000
	Increase of securities	£3,259,000

P. 35.:—

The stock of bullion was, in	January 1839 . . .	£9,336,000
	October 1839 . . .	2,525,000
	Decrease of bullion	£6,811,000

P. 33.:—

	Circulation.	Deposits.	Securities.	Bullion.
Jan. 10. 1839 .	18,201,000	10,315,000	21,680,000	9,336,000
Oct. 18. " .	17,612,000	6,734,000	24,939,000	2,522,000

Mr. J. Horsley Palmer, "Causes and Consequences," &c.

P. 39.:—

"It is perfectly immaterial whether banks of issue retain their just proportion of reserves in Bank of England notes or coin, but one or the other, it is submitted, they ought to be compelled to retain with reference to their liabilities, or to abandon the issue of notes, the upholding of which, under discredit, becomes a source of difficulty and danger to the public at large, as well as to the Bank of England."

P. 41.:—

"Under the system which now exists, embracing a total amount of bank-paper circulation in Great Britain and Ireland of about forty-five millions, the half of which may be assumed to be unprotected by an adequate reserve of either Bank of England notes or

coin, it certainly is impossible to insure the convertibility of paper even for foreign payments; nothing can guard against the effects of mismanagement, and consequent excess, by such a numerous mass of issuing bodies as overspread the empire. If, however, the amount of paper money be limited, and it be issued by one body, with an adequate reserve of bullion expanding and contracting as the currency may fluctuate in value with reference to foreign countries, there could be no difficulty in preserving it against depreciation for all purposes of foreign payment."

P. 43.: —

"Assuming that the main cause of the pressure was occasioned by the counteracting effect of the issues by other bodies, promoted in no common degree by the inordinate multiplication and competition of the Joint-Stock Banks throughout England and Ireland,* &c.

P. 50.: —

"So dangerous does the system appear, *as it now stands*, that it becomes questionable whether the Bank of England and the bodies in question can *permanently exist together*."

He concludes by saying, p. 51.: —

"Whether the Bank of England, as now constituted, be the establishment most capable of upholding public and private credit, or whether its sphere of action should be extended or contracted, are public questions. The interest of the public only is to be considered; and decisions taken in that view, and with a full knowledge of all the facts and principles bearing upon such complicated and difficult subjects, will be sure to meet with the concurrence of every individual connected with the Bank, as they ought to do with that of every well-wisher to his country."

The remedy here proposed is a limitation of the amount of paper money, to be issued by one body, with an adequate reserve of bullion. What is meant by paper money "expanding and contracting as the currency may fluctuate in value with reference to foreign countries," is not very clear; I suppose it alludes to the exchanges being favourable or unfavourable, and to the influx or efflux of bullion. On this subject I shall have occasion to treat hereafter.

I have thought it well to give an outline of the opinions and systems which prevailed previously to the introduction of the Bank Act of 1844.

CHAP. XI.

ON AN ACT TO REGULATE THE ISSUE OF BANK NOTES, AND FOR GIVING TO THE GOVERNOR AND COMPANY OF THE BANK OF ENGLAND CERTAIN PRIVILEGES FOR A LIMITED PERIOD. (19 JULY, 1844.)

SIR ROBERT PEEL, on introducing the Bill, truly observes, p. 3.*: —

"I shall therefore proceed at once to call the attention of this Committee to a matter which enters into every transaction of which money forms a part. There is no contract, public or private, no engagement, national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of society, the wages of labour, pecuniary transactions of the highest amount and of the lowest, the payment of the national debt, the provision for the national expenditure, the command which the coin of the smallest denomination has over the necessaries of life, are all affected by the decision to which we may come on that great question which I am about to submit to the consideration of the Committee."

He also adds what may not be so evident to others as to her Majesty's Government. P. 5.: —

"They are of opinion that inquiry has been exhausted, that all the information which is essential to the formation of a satisfactory judgment has been collected, and that it is incumbent on the Ministers of the Crown to submit to the decision of Parliament the measures which in their opinion it may be fitting to adopt."

* Speeches of the Right Honourable Sir Robert Peel, Bart., on the Renewal of the Bank Charter, and the State of the Law respecting Currency and Banking. London, 1844.

P. 8.:—

"Now, the whole foundation of the proposal I am about to make rests upon the assumption that according to practice, according to law, according to the ancient monetary policy of this country, that which is implied by the word 'pound' is a certain definite quantity of gold with a mark upon it to determine its weight and fineness, and that the engagement to pay a pound means nothing, and can mean nothing else, than the promise to pay to the holder, when he demands it, that definite quantity of gold."

Sir Robert Peel then ridicules the definition of some writers.

P. 10.:—

"The last definition of the standard of value which I shall quote is this: 'The standard is neither gold nor silver, but it is something set up in the imagination, to be regulated by public opinion.'"

A definition nearly resembling that of the "macute" of the African, gravely advanced by so celebrated a writer as Montesquieu, and noticed in a former part of this treatise.

P. 16.:—

"The precious metals are distributed among the various countries of the world in proportion to their respective necessities, by laws of certain though not very obvious operation, which, without our interference, will allot to our share all that we require. Some entertain the apprehension that we may be drained of all our gold in consequence of a demand for gold from foreign countries, either for the payment of their armies in time of war, or in consequence of sudden and unforeseen demand for foreign corn for our own internal consumption. It is supposed that gold, being an article in universal demand, and having at all times and in all places an ascertained value, is more subject to exportation than any thing else. But the export of gold, whether coin or bullion, is governed by precisely the same laws by which the export of any other article is governed. Gold will not leave this country, unless gold be dearer in some other country than it is in this. It will not leave this country, merely because it is gold, nor while there is any article of our produce or manufacture which can be exported in exchange for foreign produce with a more profitable return. If gold coin be in any country the common medium of exchange; or if the promissory notes, which perform in part the functions of gold coin, are at all times and under all circumstances of equal value with gold, and are instantly convertible into gold;

there are causes in operation which, without any interference on our part, will confine within known and just limits the extent to which gold can be exported. There may, no doubt, be temporary pressure from the export of gold, even when it is confined within those limits; but none for which you may not provide, none to which you would not be subject, in a higher degree probably, were any other standard of value adopted in preference to gold."

I think it not correct to say, that precisely the same laws govern the export of coin and bullion and that of other articles: other articles leave a profit and a loss which gold does not, and gold is neither dear nor cheap in this country. It has no price in this country.

It appears to me that gold does leave this country merely because it is gold; simply to pay debt, as coin leaves the pockets of individuals at home, simply to pay debt. It is exported to purchase foreign produce, when manufactures cannot be exported without leaving a loss. It is true that it would not be exported when manufactures or produce would leave a profit. It is the commodities which occasion the profit or loss, which are dearer or cheaper, not the gold.

What the causes are which operate to confine the exportation of gold *within known and just limits* are not stated; nor what are those *known and just limits.*

Gold coin is in England "the common medium of exchange;" and "promissory notes perform in part the functions of gold coin;" but can it be said that they are "at all times, and *under all circumstances*, of equal value with gold," while gold can be exported for the payment of debt, or in lieu of commodities, which promissory notes cannot? Can it be said that at all times, and *under all circumstances*, promissory notes are instantly convertible into gold, while obstacles are thrown in the way of converting them into gold by diminishing the amount of notes in circulation, and rendering necessary the circulation of these notes in the home market, from which they cannot be spared to procure the gold from the Bank? The object of

the Bank Bill seems to be to make these promissory notes as valuable in the *foreign* market, where they will not circulate, as they are in the home market, where they are exchangeable for gold coin. The object seems to be to make the promissory note as valuable for exportation as gold, and to substitute it for gold; not *directly*, which cannot be done, but *indirectly*, to make the promissory notes exchange for something in the home market which shall be equivalent or better than gold in the foreign market. The gold will only be worth its weight of gold in the foreign market, but if manufactures and produce can be lowered in price in the home market, so as to exchange for more gold in the foreign market than the gold paid for the purchase; if they can be lowered so as to leave a profit on the commodities exported in lieu of gold; then, indeed, gold will not be exported, not because there is an equivalency between gold and paper in the home market, but because there is more than an equivalency between the pound's worth of manufactures in the foreign market and the gold pound in the foreign market. It is a substitution of manufactures and produce for gold to be exported, or an exchange of bank notes for manufactures which shall be more than equal in value to the gold pound abroad.

If we cannot export the paper pound, yet if by contraction of the circulation, raising the rate of interest and a shock to credit, we make the *paper pound at home* worth more than equal to the gold pound *abroad;* and if we can make the world believe that all this pressure is necessary to restore the equilibrium between paper and gold in the *home* market, or that it is necessary and useful in order to rectify the exchanges, we succeed in establishing a great fallacy; and people are deluded into an acquiescence with injustice to the manufacturer, and merchant, and agriculturist. The pressure is to make the *paper* pound equal, or more than equal, in value to the metallic pound in the *foreign* market, not in the *home*

market, where the promissory note was always as valuable as the sovereign.

We have "*equivalency*" in the promissory note relatively to the sovereign in the *home* market, but not in the foreign market, and the confusion and distress and pressure arise from the operation of endeavouring to make the promissory note an article of merchandise like gold, of making it an "equivalent" for gold for purposes of exportation; and as it is impossible to make the promissory note merchandise in the foreign market, we force, by the law of private interest, an exchange of it for merchandise in the home market; and that merchandise, sold at ruinous prices, is the substitute for gold in the foreign markets; and then we boast of having rectified the exchanges or stopped the exportation of gold, and restored the equivalency between promissory notes and gold.

Sir R. Peel, p. 21.: —

"It is contended by some, that if you were to dispense with coin altogether, to adopt the principle of Mr. Ricardo's plan, and make Bank notes not convertible into gold at the will of the holder, excepting when presented to the amount of a very considerable sum (300*l.* or 400*l.*, for instance), and then convertible into bullion and not coin, you would provide a security against the effects of a panic connected with political causes, causing a sudden demand for gold. I very much doubt the policy of taking such precautions against such a contingency, and consider that the most effectual measure for promoting permanent confidence in the paper circulation of the country, is to require that the gold coin shall be in general use for small payments, and that the promissory note shall be of equal value with the coin which it professes to represent."

The objection to Mr. Ricardo's plan is, that it would not only banish coin from the circulation, but it would be a breach of *promise*, as expressed in the note, and the difficulty of procuring gold for the notes by the generality of holders would depreciate their value. It would be also preventing the great mercantile republic from procuring less sums than 300*l.* or 400*l.* for the purposes of foreign trade, which would be unjust, and a great hindrance to commerce.

P. 22.:—

"I must state, at the outset, that in using the word money, I mean to designate by that word the coin of the realm, and promissory notes payable to bearer on demand. In using the words paper currency, I mean only such promissory notes. I do not include in those terms bills of exchange, or drafts on bankers, or other forms of paper credit. I will not weary the House with a discussion as to the precise nature of deposits, and whether they constitute a part of the currency of the country."

P. 25.:—

"Lord Liverpool observes: 'It has been a common artifice, practised by those who have written on paper currency, to confound paper credit with paper currency; and even the higher sorts of paper currency with the inferior sorts, such as immediately interfere with the use of the coins of the realm.

"'Paper currency, strictly speaking, consists only of bills or notes payable or convertible into cash on demand by the person who issued the same at the will of the holder.'"

Sir Robert Peel says:—

"That appears to me to be the true definition of paper currency as distinguished from paper credit. It is the substitute for and immediate representative of coin, and with coin it constitutes 'money.'"

It will be observed that Lord Liverpool not only makes a distinction between credit and currency, or promissory notes payable to bearer on demand, but between the higher sorts of paper currency and the inferior sorts, such as immediately interfere with the use of coin. At the time he wrote (during the Bank restriction), we had a circulation of one and two pound notes, and it was doubtless these that he alluded to, and which immediately interfere with the use of coin. He drew a distinction between one and two pound notes, and those of a lower denomination, and five and ten pound notes, and perhaps between both these descriptions and twenty, and fifty, and hundred pound notes. He drew a distinction between all these promissory notes and bills payable after date, but only a distinction. He called one kind paper credit, and the other currency. But he did not call

either of them "money." Here Lord Liverpool and Sir R. Peel are at variance, and upon a very important point.

Sir R. Peel proceeds p. 25.:—

"And if you will adhere to the standard of value, and will adopt such measures as shall ensure the uniform equivalency of bank notes to coin, you may safely, in my opinion, leave untouched other forms of paper credit, and entrust the regulation and control of them to individual caution and discretion."

The "equivalency" of bank notes to coin depends upon the performance of the promise to pay coin when required, and the confidence in a promise depends upon the opinion entertained of the "fortune, probity, and prudence" of the person who makes the promise, whether that promise be for ten thousand pounds, or for ten pounds.

P. 26.:—

"There are some, however, who admit the validity of this distinction, and yet contend that no new legislative interference is required in the case of promissory notes. In their opinion, the true principles which should govern the issue of such notes are, freedom of competition, and immediate convertibility into coin at the will of the holder. The combination of these principles will, in their opinion, afford to the public a complete security against the abuse of the privilege of issue.

"In support of that opinion they have undoubtedly the high authority of Adam Smith and of Ricardo. Both these eminent writers assume, that immediate convertibility into coin is all that is requisite to prevent the excessive issue of paper. It is no impeachment of their sagacity, if, in the progress which this science, like all other sciences, is making, there be reason to doubt the soundness of any particular opinion which they may have delivered. And it is our duty to disregard their authority, and to act on the conclusions of our own judgment, if either reason or experience convinces us that they are safer guides.

"It appears to me that we have, from reasoning from experience, from the admissions made by the issuers of paper money, abundant ground for the conclusion, that, under a system of unlimited competition, although it be controlled by convertibility into coin, there is not an adequate security against the excessive issue of promissory notes."

But we want not a security against the excessive

issue of promissory notes, but a *security for the payment of these notes when issued.* No limitation of quantity will insure the payment of bad notes; by unlimited competition good notes or valid promises may supply their place; and under whatever securities the Government may choose to impose.

P. 27.:—

"We should infer, certainly, from reasoning, that free competition in the supply of any given article, will probably insure us the most abundant supply of that article at the cheapest rate. But we do not want an abundant supply of cheap promissory paper. We want only a certain quantity of paper, not, indeed, fixed and definite in nominal amount, but just such a quantity of paper, and that only, as shall be equivalent in point of value to the coin which it represents. If the paper be cheaper than the coin, it is an evil and not an advantage. That system, therefore, which provides a constant supply of paper equal in value to coin, and so varying in amount as to insure at all times immediate convertibility into coin, together with perfect confidence in the solvency of the issuers of paper, is the system which ought to be preferred. Now, unless the issuers of paper conform to certain principles, unless they vigilantly observe the causes which influence the influx or efflux of coin, and regulate their issues of paper accordingly, there is danger that the value of the paper will not correspond with the value of coin. The difference may not be immediately perceived, nay, the first effect of undue issue, by increasing prices, may be to encourage further issues; and as each issuer, where there is unlimited competition, feels the inutility of individual efforts of contraction, the evil proceeds, until the disparity between gold and paper becomes manifest, confidence in the paper is shaken, and it becomes necessary to restore its value by sudden and violent reductions in its amount, spreading ruin among the issuers of paper, and deranging the whole monetary transactions of the country."

P. 28.:—

"If we admit the principle of a metallic standard, and admit that the paper currency ought to be regulated by immediate reference to the foreign exchanges—that there ought to be early contractions of paper on the efflux of gold—we might, I think, infer from reasoning, without the aid of experience, that an unlimited competition, in respect to issue, will not afford a security for the proper regulation of the paper currency."

To place promissory paper in the home circulation in the same category as an "article" or commodity, and to suppose that it can vary like merchandise in

value, according to its quantity, is to confound the "promise" with the "pound." The pound is gold, and will vary in value according to the supply relatively to the demand, and to the cost of production, being gold. The pound, or sovereign, is the measure of value and the equivalent. The *promise* is an engagement to "pay to the holder, when he demands it, a definite quantity of gold," viz., "this pound," or sovereign. The promise is one thing, and the pound is another. When it is said, "We do not want an abundant supply of cheap promissory paper," is it meant that we do not want an abundant supply of cheap *pounds*, or of cheap *promises?* The pound is not affected in value by the promise, nor the promise by the pound. Whatever the pound may be, the promise is fulfilled by paying that pound on demand; and whatever may be the value of the promise, the pound or sovereign remains unaltered in value. The pound is merchandise of a certain weight, and its value must be determined by the crucible and the scales. The promise is a moral obligation, not depending upon quantity or quality, but "truth." The test of the promissory note is "truth." How can the value of the paper be determined by its quantity, and how can a promise to deliver coin on demand, if *true*, be less valuable than coin? How can the promise be cheap or dear, or how can confidence in the promise, the opinion of another respecting the promise, affect *the value* of the pound? If the confidence of the public be shaken, it must be confidence in the promise, and they will immediately demand payment of the coin. How can contraction restore confidence in a promise, when no doubt ever existed? The foreign exchanges cannot be affected by the quantity of paper in circulation, as long as gold is paid in performance of the promise; gold is demanded for exportation; the pound is demanded because the promise is unavailable in transmitting the balance of debt.

Can anything be more preposterous than that a country banker, or that any banker, should be determined in the amount of his issues of promises by the state of the exchanges; that his domestic circulation should be contracted on the efflux of gold? And are we to conclude, because he does not regulate the issue of his notes by the state of the exchanges and the efflux of gold from this kingdom, that therefore unlimited competition will not determine the proper amount of currency that *this* country may require?

Why should the home circulation have any thing to do with the foreign demand for gold? This is the result of the present system.

If the coin in banks of issue were kept distinct and separate from the bullion employed in the international commerce of the Great Mercantile Republic, the national and the international circulation would both regulate themselves, without any interference of the government, or of any national bank.

The demand for coin in the home circulation would be quite as potent, and would not yield to the demand for gold for international commerce or for any other purpose.

The exportation of bullion, that "most convenient commodity," must not always be identified with the exchanges.

The rivalship now is between the demand for the "great mercantile republic" and the great national bank. It is the Bank of England, and not the nation, that wants to retain the gold, in order to be enabled to fulfil its own engagements. But the effect of competition is not limited to cheapness but extends to goodness. By competition we not only get a *cheaper* article but a *better* article. The competition of banks may produce good banks as well as cheap banks; safe banks of deposit, as well as money lenders, at low interest.

It is clear that the Bill is founded upon the principle that the promissory notes, even when payable, and paid in coin on demand, are liable to be depre-

ciated relatively to the gold, and that the paper could "be cheaper than the coin."

P. 29. Sir R. Peel adduces evidence "to prove that country banks do not and cannot control their issues according to the state of the foreign exchanges."

P. 30.: —

"And thus each refusing to make the individual sacrifice, (which, indeed, is useless where only made individually,) the crisis comes: there is a demand for gold which cannot be satisfied, and the end of all is much individual suffering and many fortunes ruined, from the necessity of a sudden and violent effort to establish, by the contraction of issue, an equilibrium between gold and paper."

What is wanted is not an equilibrium between gold and paper, but an equilibrium between promise and performance or payment. "The crisis comes!" What crisis? The crisis of the Bank of England? But, in truth, the notes in circulation should have nothing to do with the demand for gold for exportation. The gold is wanted *for exportation* either in the regular round-about foreign trade, which is perfectly legitimate, or to pay debt, or to guard against loss from the high prices in our markets, and these high prices are checked by the demand being lessened for commodities, and gold being exported in their stead; but it was not the overissue of notes which raised prices, but the overlending of money to individuals, and which ought to be checked according to the rules of *prudence*, not according to the state of the exchanges.

"There is a demand for gold which cannot be satisfied, and the end of all is, much individual suffering and many fortunes ruined, from the necessity of a sudden and violent effort to establish, by the contraction of issue, an equilibrium between gold and paper."

What have individuals to do with the engagements of the Bank of England? What would be said of any joint-stock bank at Liverpool or Manchester, who, when pressed for the fulfilment of their engage-

ments, were to inflict "much individual suffering" and "ruin many fortunes," in order to establish an equilibrium between their "debits and assets," or between "their notes in circulation, and the Bank of England notes and gold and silver in their coffers?"

P. 31.:—

"Thus it appears to me, that the conclusions of reason against unlimited competition of issue, are amply confirmed by the admissions of the advocates for it." *

The admissions were, that the issuers of promissory notes did not, and could not, regulate their issues according to the amount of gold in the Bank of England, according as that gold was increasing by importation or diminishing by a demand for exportation, or according to the foreign exchanges, and that "there will be an increase in the local circulation when prices rise."

Can it be concluded by reason, that the operations of one bank are to be guided by those of another? That a banker is to be determined in his decision, not by his own ability to meet his engagements, but by the ability of another bank, however powerful, to meet its engagements; or that the issues of a private banker, in a limited neighbourhood, are to be determined by the commercial operations of the "great mercantile republic;" that it is an essential part of his business to study the foreign exchanges, and to understand the full meaning of the following statement?

"The premium on gold at Paris is 7 per mille, which, at the English Mint price of 3*l.* 17*s.* 10½*d.* per ounce for standard gold, gives an exchange of 25.32½, and the exchange at Paris on London at short being 25.30, it follows that gold is 0.10 per cent. dearer in Paris than in London."—*Evening Mail*, April 10. 1849.

Sir Robert Peel, p. 31.:—

"Are the lessons of experience at variance with the conclusions

* See the Evidence of Mr. Hobhouse and of Mr. Stuckey. Sir R. Peel, p. 28.

we are entitled to draw from reason and from evidence? What has been the result of unlimited competition in the United States? In the United States the paper circulation was supplied, not by private bankers, but by Joint-Stock Banks, established on principles apparently the most satisfactory. There was every precaution taken against insolvency; unlimited responsibility of partners — excellent regulations for the publication and audit of accounts — immediate convertibility of paper into gold. If the principle of unlimited competition controlled by such checks, be safe, why has it utterly failed in the United States? How can it be shown that the experiment was not fairly made in that country? Observe this fact. While there existed a central Bank (the United States Bank), standing in some such relation to the other banks of the United States as the Bank of England stands to the banks of the country, there was some degree (imperfect, it is true) of control over the general issues of paper. But when the privileges of the Central Bank ceased, when the principle of free competition was left unchecked, then came, notwithstanding professed convertibility, immoderate issues of paper, extravagant speculation, and the natural consequences, suspension of cash-payments and complete insolvency. Hence, I conclude, that reason, evidence, and experience combine to demonstrate the impolicy and danger of unlimited competition in the issue of paper."

Sir Robert Peel considered that the United States Bank afforded a "lesson of experience," in favour of a national or central bank: in the following chapter I have given some account of that bank, of the reasons alleged for the refusal to renew its charter, and of the establishment of a Constitutional Treasury.

CHAP. XII.

ON BANKING IN THE UNITED STATES.

The following extracts from Gilbart's "History of Banking in America" will show, that the opinions of statesmen in America have differed upon the utility of a National Bank.*

In the year 1831, Mr. Albert Gallatin thus speaks of the advantages derived from the Bank of the United States.

P. 16.:—

"Experience, however, has since confirmed the great utility and importance of a 'Bank of the United States in its connexion with the Treasury:' 'the safe keeping of the public monies; and the perfect facility with which all the public payments are made' in, and transferred from one part to the other, in the extensive territories of the Union. 'The uniformity of duties and taxes of every description,' from the uniformity 'of the currency,' being such as will 'ensure a currency sound, and uniform itself, and at the same time check and regulate that which will continue to constitute the greater part of the currency of the country.'"

He then dwells upon the greater degree in which the circulation of the United States Bank had increased in proportion to that of the State Banks.

P. 17.:—

"The general complaints on the part of the State Banks, that they are checked and controlled in their operations by the Bank of the United States,—that, to use a common expression, it operates as a screw, is the best evidence that its general operation is such as had been intended. It was for that very purpose that the Bank was established."

P. 18.:—

"The manner in which the Bank checks the issues of the State Banks, is equally simple and obvious. It consists in receiving

* "The History of Banking in America," by James William Gilbart: London, 1837.

the notes of all those which are solvent, and requiring payment from time to time, without suffering the balance due by any to become too large.

"We think that we may say, that on this operation, which requires particular attention and vigilance, and must be carried on with great firmness and due forbearance, depends almost exclusively the stability of the currency of the country.

"The principal advantages derived from the Bank of the United States, which no State Bank, and, as it appears to us, no bank established on different principles could afford, are, therefore, first and principally, securing with certainty an uniform, and, as far as paper can, a sound currency; secondly, the complete security and great facility it affords to government in its fiscal operations; thirdly, the great convenience and benefit accruing to the community, from its extensive transactions in domestic bills of exchange and inland drafts. We have not adverted to the aid which may be expected from that institution in time of war, and which we think should be confined to two objects."

These objects are stated to be, advances on the security of the "additional taxes laid during the war; and affording facilities for raising loans."

These were the principal arguments in favour of the Bank of the United States, and which, in some respects, are similar to those advanced by Sir Robert Peel on the introduction of the present Bank Bill.

It may be observed that there is this wide distinction between the United States Bank, called by Sir Robert Peel, the Central Bank, and the Bank of England; the former was not the warehouse or Bank of deposit of the bullion, which formed the international money of the Great Mercantile Republic, that "most convenient commodity for carrying on the round-about foreign trade."

It may be also observed that the check and control exercised by the United States Bank was on the State Banks; "p. 18. by receiving the notes of all those that are solvent, and requiring payment from time to time, without suffering the balance due by any to become too large."

This is different from the control proposed by Sir Robert Peel; that was to be exerted without discrimination upon the general currency of the country, including the issues of the Bank of England; and the

control was to be regulated, not by the solvency of the banks, but by the state of the exchanges.

We shall find that General Jackson, when President, entertained very different views respecting the United States Bank.

P. 19.:—

"In 1832, a law passed both Houses of Congress for a renewal of the charter of the Bank of the United States; but the President, General Jackson, refused to ratify it. This power is conferred upon the President."

P. 20.:—

The President returned the bill to the Senate, with a very long message, stating his objections, which were principally of a political nature.

P. 21.:—

"It will make the American people debtors to aliens in nearly the whole amount due to this Bank, and send across the Atlantic from two to five millions of specie every year to pay the Bank dividends."

Also, by conferring too great power on the directors, it might endanger the institutions of the country.

P. 22.:—

"It is easy to conceive that great evils to our country and its institutions might flow from such a concentration of power in the hands of a few men irresponsible to the people."

Also that the Bank might procure for itself the power to purchase lands within the States — a power granted to the Government only for particular purposes of general interest, and with the consent of the State where such lands are situated; that "the stockholders should be Americans only, if such a bank were established; that the capital of the bank was unnecessarily large."

P. 22.:—

"The old Bank of the United States possessed a capital of only eleven mi lions of dollars, which was found fully sufficient to enable it, with despatch and safety, to perform all the functions required of it by the Government. The capital of the present

Bank is thirty-five millions of dollars, at least twenty-four more than experience has proved to be necessary to enable a bank to perform its public functions. The public debt which existed during the period of the old Bank, and on the establishment of the new, has been nearly paid off, and our revenue will soon be reduced. This increase of capital is, therefore, not for public, but for private purposes."

P. 23.:—

In 1833, General Jackson removed the government deposits from the Bank of the United States.

P. 24.:—

"A great part of the session of 1834 was occupied in debates connected with the removal of the public deposits from the Bank of the United States, and upon the embarrassments produced by the consequent pressure upon the money market. The senate took the side of the Bank, and March 26th passed two resolutions: 1. "That the reasons assigned by the Secretary of the Treasury for the removal of the money of the United States, deposited in the Bank of the United States and its branches, communicated to Congress on the 4th of December 1833, are unsatisfactory and insufficient." 2. "That the President in the late executive proceedings in relation to the public revenue has assumed upon himself authority and powers not conferred by the constitution and laws, but in derogation of both." The house of representatives took the side of the President, and on April 4th passed the following resolutions: 1. "That the Bank of the United States ought not to be re-chartered." 2. "That the public deposits ought not to be restored to the Bank of the United States."

P. 28.:—

In his address to Congress, delivered December 1st, 1834, General Jackson referred to the Bank of the United States in the following terms:—

"Circumstances make it my duty to call the attention of Congress to the Bank of the United States. Created for the convenience of the Government, that institution has become the scourge of the people. Its interference to postpone the payment of a portion of the national debt, that it might retain the public money appropriated for that purpose to strengthen it in a political contest—the extraordinary extension and contraction of its accommodations to the community—its corrupt and partisan loans, &c. . . . .

"It is a subject of congratulation, that Congress and the country had the virtue and firmness to bear the infliction; that the energies of our people soon found relief from this wanton tyranny in vast importations of the precious metals from almost every part of the world; and that at the close of this tremendous effort to

control our Government, the Bank found itself powerless, and no longer able to loan out its surplus means. The community had learned to manage its affairs without its assistance, and trade had already found new auxiliaries, so that on the 1st October last the extraordinary spectacle was presented of a national bank, more than one-half of whose capital was either lying unproductive in its vaults or in the hands of foreign bankers.

"It seems due to the safety of the public funds remaining in that Bank, and to the honour of the American people, that measures be taken to separate the Government entirely from an institution so mischievous to the public prosperity, and so regardless to the constitution and laws.

"Events have satisfied my mind, and I think the minds of the American people, that the mischiefs and dangers which flow from a national bank far over balance all its advantages. The bold effort the present Bank has made to control the Government, the distresses it has wantonly produced, the violence of which it has been the occasion in one of our cities famed for its observance of law and order, are but premonitions of the fate which awaits the American people, should they be deluded into a perpetuation of this institution, or the establishment of another like it.

"Happily, it is already illustrated that the agency of such an institution is not necessary to the fiscal operations of the Government. The State Banks are found fully adequate to the performance of all services which were required of the Bank of the United States, quite as promptly, and with the same cheapness. They have maintained themselves, and discharged all these duties, while the Bank of the United States was still powerful, and in the field as an open enemy: it is not possible to conceive that they will find greater difficulties in their operations when that enemy shall cease to exist.

"If the several States shall be induced gradually to reform their banking systems, and prohibit the issue of all small notes, we shall in a few years have a currency as sound, and as little liable to fluctuations, as any other commercial country."

P. 34., 1836, Mr. Gilbert observes:—

"The charter of the Bank of the United States expired in this year. A new charter was, however, obtained from the State of Pennsylvania, authorizing the Bank to carry on business in that State. The Bank also obtained permission to continue their agencies in some of the other States. Though it retains the title of 'Bank of the United States,' yet it is not chartered by Congress, it is no longer the Bank of the Government; it has no longer the power to establish branches in the various States without their consent, and it must be subject to such laws or taxes as the respective States may impose."

This bank failed, after a fearful struggle, under the presidency of Mr. Biddle.

P. 36.:—

In his farewell address to Congress, delivered December 6th, 1836, the President thus adverts to the Bank of the United States:—

The President severely animadverts upon the conduct of the Bank of the United States and "the dangerous power" it wielded, which induced him "to prevent the continuance of that institution."

He observes:—

"Experience continues to realise the expectations entertained as to the capacity of the States' Banks to perform the duties of fiscal agents of the Government.—Independent of these services, which are far greater than those rendered by the United States Bank, and its twenty-five branches, a number of the deposit Banks have, with a commendable zeal to aid in the improvement of the currency, imported from abroad, at their own expense, large sums of the precious metals for coinage and circulation."

Gilbart, p. 200. The following is an extract from a "communication from a correspondent of the Times."

"Immediately on the removal of the public deposits from the late Bank of the United States, speculations in its stock on a fall to a large amount ensued. Here the mania commenced. New local banks were thereupon chartered by the several States, and their stocks became the object of speculation. Paper money being abundant in the hands of a favoured few, these gentlemen turned their attention to the national domain. The disease had now become contagious, and consequently almost universal. Every description of property, foreign or domestic, personal or landed, was greatly enhanced in price; but more especially lands. In the height of this mania, the President directed the Secretary of the Treasury, under the date of the 11th of July, 1836, to instruct the receivers of public money in the western and south-western States, to take nothing in payment of the public lands but gold or silver, or the notes of banks in their vicinity, that would be redeemed forthwith in specie.

"The effect of this order was twofold. It compelled the western and south-western banks to contract their loans, and thus gradually withdraw from circulation a portion of their paper, lest they should subject themselves to a run. At the same time it compelled both the speculator and the actual settler, who wished to purchase the public land, to provide himself in

the Atlantic States with specie, and transport it to the place where his payment was to be made.

"By these anticommercial regulations, the gold and silver was withdrawn from the marts of commerce, where it ought to have been left, as the means of regulating and balancing the accounts between the United States and foreign countries; and it was thrown into a district of territory where it remains unemployed in the vaults of certain banks, in the form of deposits, to the credit of the government. This is an unnatural state of things, and has tended incalculably to embarrass the merchants on the seaboard." *

President Polk, in his Message to Congress, Dec. 5th, 1848,† dwells at some length upon the subject of a National Bank, which he himself disapproves of; he alludes to the opinion of President Washington, and highly commends the operation of the Constitutional Treasury established in 1846.

"Without reflecting upon the dissimilarity of our institutions, and of the condition of our people and those of Europe, they conceived the vain idea of building up in the United States a system similar to that which they admired abroad. Great Britain had a national bank of large capital in whose hands was concentrated the controlling monetary and financial power of the nation; an institution wielding almost kingly power, and exerting vast influence upon all the operations of trade, and upon the policy of the government itself. Great Britain had an enormous public debt, and it had become a part of her public policy to regard this as a 'public blessing.' Great Britain had also a restrictive policy, which placed fetters and burdens on trade, and trammelled the productive industry of the mass of the nation. By her combined system of policy, the landlords and other property holders were protected and enriched by the enormous taxes which were levied upon the labour of the country for their advantage.

"Imitating this foreign policy, the first step in establishing the new system in the United States was the creation of a national bank. Not foreseeing the dangerous power and countless evils which such an institution might entail on the country, nor perceiving the connexion which it was designed to form between the Bank and the other branches of the miscalled 'American system,' but feeling the embarrassments of the Treasury and of the business of the country, consequent upon the war, some of our statesmen, who had held different and sounder views, were induced to yield their scruples, and, indeed, settled conviction of its unconstitutionality, and to give it their sanction as an expedient which

* A Genevese Traveller. † Evening Mail, Dec. 20. 1848.

they vainly hoped might produce relief. It was a most unfortunate error, as the subsequent history and final catastrophe of that dangerous and corrupt institution have abundantly proved. The Bank, with its numerous branches, ramified into the States, soon brought many of the active political and commercial men in different sections of the country into the relation of debtors to it, and dependents upon it for pecuniary favours; thus diffusing throughout the mass of society a great number of individuals of power and influence to give tone to public opinion, and to act in concert in cases of emergency. The corrupt power of such a political engine is no longer a matter of speculation, having been displayed in numerous instances, but most signally in the political struggles of 1832, 1833, and 1834, in opposition to the public will, represented by a fearless and patriotic President.

"But it has been urged that the national bank, which constituted so essential a branch of this combined system of measures, was not a new measure, and that its constitutionality had been previously sanctioned, because a bank had been chartered in 1791, and had received the official signature of President Washington. A few facts will show the just weight to which this precedent should be entitled, as bearing upon the question of constitutionality.

"Great division of opinion upon the subject existed in Congress. It is well known that President Washington entertained serious doubts both as to the constitutionality and expediency of the measure; and while the Bill was before him for his official approval or disapproval, so great were these doubts that he required 'the opinion in writing' of the members of his cabinet, to aid him in arriving at a decision.

"Additional light has been recently shed upon the serious doubts which he had on the subject, amounting at one time to a conviction that it was his duty to withhold his approval from the Bill. This is found among the manuscript papers of Mr. Madison, authorized to be purchased for the use of the Government by an Act of the last session of Congress, and now for the first time accessible to the public. From these papers it appears that President Washington, while he yet held the Bank Bill in his hands, actually requested Mr. Madison, at that time a member of the House of Representatives, to prepare the draught of a veto message for him. Mr. Madison, at his request, did prepare the draught of such a message, and sent it to him on the 21st of February, 1791. A copy of this original draught, in Mr. Madison's own handwriting, was carefully preserved by him, and is among the papers lately purchased by Congress.

"The weight of the precedent of the bank of 1791, and the sanction of the great name of Washington, which has been so often invoked in its support, are greatly weakened by the development of these facts. The experiment of that bank satisfied the country that it ought not to be continued, and at the end of twenty years Congress refused to recharter it. It would have been fortunate for

the country and saved thousands from bankruptcy and ruin, had our public men of 1816 resisted the temporary pressure of the times upon our financial and pecuniary interests, and refused to charter the second bank. Of this the country became abundantly satisfied, and at the close of its twenty years' duration, as in the case of the first bank, it also ceased to exist. Under the repeated blows of President Jackson it reeled and fell, and a subsequent attempt to charter a similar institution was arrested by the veto of President Tyler.

"The Vice-President (of the senate) exercises the veto power as effectually by rejecting a bill by his casting vote, as the President does by refusing to approve and sign it. This power has been exercised by the Vice-President in a few instances, the most important of which was the rejection of the bill to recharter the Bank of the United States, in 1841.

"The bank has been succeeded by a practical system of finance, conducted and controlled solely by the Government. The constitutional currency has been restored; the public credit maintained unimpaired, even in a period of foreign war; and the whole country has become satisfied that banks, national or state, are not necessary as fiscal agents of the Government. Revenue duties have taken the place of the protective tariff. The distribution of the money derived from the sale of the public lands has been abandoned, and the corrupting system of internal improvements, it is hoped, has been effectually checked.

"The operations of the constitutional treasury established by the Act of the 6th of August, 1846, in the receipt, custody, and disbursement of the public money, have continued to be successful. Under this system the public finances have been carried through a foreign war, involving the necessity of loans and extraordinary expenditures, and requiring distant transfers and disbursements, without embarrassment, and no loss has occurred of any of the public money deposited under its provisions. Whilst it has proved to be safe and useful to the Government, its efforts have been most beneficial upon the business of the country. It has tended powerfully to secure an exemption from that inflation and fluctuation of the paper currency so injurious to domestic industry, and rendering so uncertain the rewards of labour; and, it is believed, has largely contributed to preserve the whole country from a serious commercial revulsion, such as often occurred under the bank deposit system. In the year 1847, there was a revulsion in the business of Great Britain of great extent and intensity, which was followed by failures in that kingdom unprecedented in number and amount of losses. This is believed to be the first instance when such disastrous bankruptcies, occurring in a country with which we have such extensive commerce, produced little or no injurious effect upon our trade or currency. We remained but little affected in our money market, and our business and industry were still prosperous and progressive.

"During the present year nearly the whole continent of Europe

has been convulsed by civil war and revolutions, attended by numerous bankruptcies, by an unprecedented fall in their public securities, and an almost universal paralysis of commerce and industry; and yet, although our trade and the prices of our products must have been somewhat unfavourably affected by these causes, we have escaped a revulsion, our money market is comparatively easy, and public and private credit have advanced and improved.

"It is confidently believed that we have been saved from their effect by the salutary operation of the Constitutional Treasury. It is certain that, if the 24,000,000 of specie imported into this country during the fiscal year, ending on the 30th June 1847, had gone into the banks, as to a great extent it must have done, it would, in the absence of this system, have been made the basis of augmented bank-paper issues, probably to an amount not less than $60,000,000 or $70,000,000, producing, as an inevitable consequence of an inflated currency, extravagant prices for a time and wild speculation, which must have been followed, on the reflux to Europe the succeeding year of so much of that specie, by the prostration of the business of the country, the suspension of the banks, and most extensive bankruptcies. Occurring, as this would have done, at a period when the country was engaged in a foreign war, — when considerable loans of specie were required for distant disbursements, and when the banks, the fiscal agents of the Government, and the depositories of its money, were suspended, the public credit must have sunk, and many millions of dollars, as was the case during the war of 1812, must have been sacrificed on discounts upon loans, and upon the depreciated paper currency which the Government would have been compelled to use.

"Under the operations of the constitutional treasury, not a dollar has been lost by the depreciation of the currency. The loans required to prosecute the war with Mexico were negotiated by the Secretary of the Treasury above par, realising a large premium to the Government. The restraining effect of the system upon the tendencies to excessive paper issues by banks has saved the Government from heavy losses, and thousands of our business-men from bankruptcy and ruin. The wisdom of the system has been tested by the experience of the last two years; and it is the dictate of sound policy that it should remain undisturbed. The modifications, in some of the details of this measure, involving none of its essential principles heretofore recommended, are again presented for your favourable consideration."

As Sir Robert Peel refers to the banks of the United States, and adduces them as an instance where a central bank (the Bank of the United States) exercised a beneficial control, although imperfect, over other banks, and on the removal of which those banks became insolvent; I have thought it desirable to give,

at some length, the opinions entertained by American statesmen of the utility of a national bank, derived from Mr. Gilbart's History of Banking in America, and from the Messages of Presidents to Congress.

In 1836, a very harsh measure was adopted by the government in obliging the "receivers of the public money in the Western and South-Western States to take nothing in payment of the public lands, but gold or silver, or the notes of banks in their vicinity, that would be redeemed forthwith in specie."

This proceeding is commented on by the correspondent of the "Times" at New York, of whose communication I have given an extract, "as anti-commercial regulations, the gold and silver was withdrawn from the marts of commerce" — "to remain unemployed in the vaults of certain banks."

This regulation may have had relation to General Jackson's plan of introducing a more general metallic currency. It furnished the government with gold and silver, but "embarrassed the merchants on the seabord."

A "Constitutional Treasury" was established in 1846, which is greatly lauded by President Polk in his Message to Congress on December 5, 1848: he attributes to it the comparative exemption of the United States from the commercial difficulties and losses, which occurred in Great Britain during the year 1847.

Experience would appear to have confirmed the utility of this system, as it was still acted upon in 1854. In the "Evening Mail," May 29th, 1854, after giving a statement respecting the banks of the United States, the writer in the "Money Article" proceeds:—

"The government holds a total of nearly 6,000,000 sterling, which, being locked up in their own vaults, and unrepresented by paper of any kind, is as valueless for all the immediate purposes of commerce, as if it were at the bottom of the sea. It is also believed that there is more gold and silver in circulation among the people, than at any previous period."

President Polk observes in his Message: —

"The Bank was represented to be an indispensable fiscal agent for the Government, was to equalise the exchanges, and to regulate and furnish a sound currency, always and everywhere of uniform value.

"The Bank has been succeeded by a practical system of finance, conducted and controlled solely by the Government. The constitutional currency has been restored; the public credit maintained unimpaired, even in a period of foreign war; and the whole country has become satisfied that banks, national or state, are not necessary as fiscal agents of the Government."

President Polk supposes that if the 24,000,000 dollars which were imported in America during the fiscal year ending 30th June, 1847, and which were deposited in the vaults of the Treasury, had been deposited in the banks, an issue of 60 or 70,000,000 dollars in promissory notes might have been issued upon the basis of this specie.

If the Government of the United States found it advantageous that its employment of bullion should not interfere with the domestic or national circulation of promissory notes; that the Government should have its separate treasury and be quite independent of the banks in this respect; is it not equally desirable that the "Great Mercantile Republic" should have their separate treasury? that the bullion employed in their international commerce should be distinct from the national circulation, and the employment of it perfectly independent of the Bank of England, of national banks, and of all banks?

Why should there be any antagonism between the national and international circulation? between banks of issue and the Great Mercantile Republic? between the domestic trade and foreign commerce?

The Constitutional Treasury was established in 1846, two years after the passing of the English Bank Act of 1844, and I think that the extracts from President Polk's Message merit an attentive perusal.

P. H. Muntz, Esq., in his evidence* before the Committee of the House of Commons in 1848, gave an

* "1344. You mentioned that you had resided for a considerable time on the continent? — I did for years.

account of the mode in which the Bank of Hamburg transacted business.

It appears that no promissory notes are issued by that Bank, and he thinks that in Hamburg during the panics of April and October 1847 in England, "they would not have felt any panic at all had it not been for the return of commercial bills going back from this country."

Mr. M'Culloch informs us in his edition of Adam Smith, p. 487.*:—

"The bank of Hamburg receives the bullion deposited in its coffers at the rate of 442 schillings the mark, and issues it at the rate of 444 schillings; being a charge of four ninths or nearly one half per cent. for its retention."

"1345. Are you acquainted with the monetary system of Hamburg?—I am.

"1346. Will you be kind enough to state in what way the monetary system there is conducted?—There are two monies in Hamburg; there is the current money for ordinary purposes, and there is what is called 'banco,' which is 25 per cent. better value, and which represents silver deposited in the bank of Hamburg; there are no notes issued at all.

"1347. In what way does a person, having a lodgment in the bank, draw it out?—By 'writing off,' as it is called; there are certain forms in which you write, 'Give to Mr. So-and-so so much banco,' and that is the way the bills of exchange are paid; I never knew money used, and I do not think it is according to law.

"1348. Then the commercial obligations at Hamburg are discharged by cheques, which transfer payment to the debit of one party and to the credit of another?—Entirely so.

"1349. The commercial transactions of Hamburg are to a very great extent, and it is a large and important city?—It is a very important town indeed, and there is a very large trade there.

"1350. What was the state of commercial affairs in Hamburg, during the last year, at the time of our panics in April and October; were they subject to the same embarrassments, or to greater or less embarrassments?—They were subject to less embarrassments than we were, and had it not been for the return of commercial bills going back from this country, I think they would not have felt any panic at all.

"1351. Then you think Hamburg under that system of transferring payments at the Bank, would have had no panic last year, but for the return of the bills of exchange drawn upon England?—I do not think they would."

* Storch, Economie Politique, tom. iv. p. 104.

CHAP. XIII.

ON THE CONTROLLING POWER OF THE BANK OF ENGLAND.

SIR R. PEEL'S Speeches, p. 36.: —

"We think it of great importance to increase the controlling power of a single bank of issue. We think it the wisest course to select the Bank of England as that controlling and central body rather than to appoint commissioners acting under the authority of Parliament for the purpose of the issue of a paper currency. I therefore propose, with respect to the Bank of England, that it should continue in possession of its present privileges of issue, but that there should be a complete separation of the business of banking from that of issue; that there should be a department of issue separate from the department of banking, with separate officers and separate accounts. I propose that to the issue department should be transferred the whole amount of bullion now in the possession of the Bank, and that the issue of Bank notes should hereafter take place on two foundations, and two foundations only: — first, on a definite amount of public securities; secondly, exclusively upon bullion. The action of the public will regulate the amount of that portion of the note circulation which is issued upon bullion."

P. 45.: —

"We propose that 14,000,000*l.* should be that amount of securities. Seeing no advantage in a change, we propose to continue upon the present terms the existing loan of 11,000,000*l.* made by the Bank to the Government at 3 per cent. This debt of the Government to the Bank is to be assigned as part of the security on which the issues of the Bank are to take place. There will then remain 3,000,000*l.* of additional securities, exchequer bills or other securities, over which the Bank are to have entire control. We propose that the Bank should have a right, in case of necessity, to limit its issues upon that portion of the

securities, viz., 3,000,000*l.* Circumstances might possibly arise in which the Bank might find it necessary to restrict its issues within the amount of 14,000,000*l.* In that case the Bank will have full power to diminish the 3,000,000*l.* of securities which are to be deposited in addition to the 11,000,000*l.* of debt assigned. I can hardly conceive a case in which it would be advisable to limit the issues to less than 11,000,000*l.*"

P. 57.: —

"Take the case at present: the Bank is possessed of a great amount of bullion, not less than 16,000,000*l.* The banking department of the Bank of England will be possessed of not less than 30,000,000*l.* of Bank notes, 14,000,000*l.* issued on securities, and 16,000,000*l.* on bullion: a great proportion of these Bank notes will necessarily lie dormant in the coffers of the banking department, because it is not probable that more than 22,000,000*l.* can be made available for the supply of the legitimate demands of commerce."

The Issue Department issues thirty millions of promissory notes payable to bearer on demand upon the security of eleven millions, which had been lent to the Government, and upon three millions of Exchequer bills, and sixteen millions of gold bullion. It would be inferred that all the property, which the Bank offers as a security, is the property of the Bank. It can never be consistent with justice to pledge another person's property as a security for debt, with which the owner of the property has no concern or participation. The eleven millions lent to the Government may be said to be the property of the Bank, but until that property is sold in the market for *gold*, it is not available to pay the promissory notes in *gold.* The three millions of exchequer bills may, perhaps, be also said to be the property of the Bank, being equivalent to the "Rest," which is the amount of undivided profits of the Bank, but until these Exchequer bills are sold for gold, they offer no means of paying the promissory notes; both the debt of the Government and the Exchequer bills might be sold, at some price, for bank notes, and with these bank notes, it may be said, gold might be obtained from the Issue Department, and with this gold the notes

would be paid; this fund of gold would be nearly exhausted by the payment of fourteen millions of gold, only two millions would remain to pay the sixteen millions of notes still with the public; and what becomes of the depositors? We see clearly that even sixteen millions of gold are not sufficient to satisfy the claims upon the Bank, if *enforced*.

The following is the section of the Act (7 & 8 Vict. c. 32.), relating to the management of the issue by the Bank of England:—

"Sect. ii. And be it enacted, That upon the thirty-first day of August, One thousand eight hundred and forty-four, there shall be transferred, appropriated, and set apart by the said Governor and Company to the Issue Department of the Bank of England, securities to the value of fourteen million pounds, whereof the debt due by the Public to the said Governor and Company shall be and be deemed a part; and there shall also at the same time be transferred, appropriated, and set apart by the said Governor and Company to the said Issue Department so much of the Gold Coin and Gold and Silver Bullion then held by the Bank of England as shall not be required by the Banking Department thereof; and thereupon there shall be delivered out of the said Issue Department into the said Banking Department of the Bank of England such an amount of Bank of England notes as, together with the Bank of England notes then in circulation, shall be equal to the aggregate amount of the securities, coin, and bullion so transferred to the said Issue Department of the Bank of England: and the whole amount of Bank of England notes then in circulation, including those delivered to the Banking Department of the Bank of England as aforesaid, shall be deemed to be issued on the credit of such securities, coin, and bullion so appropriated and set apart to the said Issue Department; and from thenceforth it shall not be lawful for the said Governor and Company to increase the amount of securities for the time being in the said Issue Department save as herein-after is mentioned, but it shall be lawful for the said Governor and Company to diminish the amount of such securities and again to increase the same to any sum not exceeding in the whole the sum of fourteen million pounds, and so from time to time as they shall see occasion; and from and after such transfer and appropriation to the said Issue Department as aforesaid, it shall not be lawful for the said Governor and Company to issue Bank of England notes, either into the Banking Department of the Bank of England or to any persons or person whatsoever, save in exchange for other Bank of England notes, or for gold coin, or for gold or silver bullion received or purchased for the said Issue Department under the provisions of this Act, or in exchange for securities acquired

and taken in the said Issue Department under the provisions herein contained: Provided always, that it shall be lawful for the said Governor and Company in their Banking Department to issue all such Bank of England notes, as they shall at any time receive from the said Issue Department or otherwise, in the same manner in all respects as such issue would be lawful to any other person or persons."

May it not be asked whose *property* was this gold, *appropriated* by the Bank of England for the payment of its promissory notes? The Bank of England has no property in the circulating coin, nor in the bullion which circulates among nations, as international money. It has given nothing for this coin or bullion, but promises or engagements to restore this gold and silver when demanded: no division of departments in the arrangement of any establishment can weaken or strengthen the rights of property or the claims of justice: no management can alter the *precise* nature of an engagement.

The promissory notes are a debt of the Bank; the bullion is deposited upon trust: no trustee has a *right* to *appropriate* to his own advantage the trust property confided to his care; no store-keeper has a *right* to deny or impede the delivery of the commodities confided to him for safe custody, upon the express condition that he is to deliver them when demanded; nor has either any right, by any contrivance, to defeat that demand, so as to retain possession of those commodities, to his own advantage and the prejudice of another.

The Bank of England has no more property in the bullion in its vaults, the international money of the Great Mercantile Republic, than had the Bank of Amsterdam in the bullion in their vaults.

The sale of three millions of Exchequer bills is not to be made for the purpose of *purchasing* gold, but in order to extract three millions of promissory notes from the circulation, reducing the fourteen millions issued on securities to eleven millions.

In what manner was this to check the demand for gold for exportation except by lowering the prices of

commodities, in order to render the exportation of those commodities profitable to the exporter, and thus gain for them the preference for exportation to the foreign market instead of gold, which would remain in the possession of the Bank of England?

In the examination of S. J. Loyd, Esq., before the Committee of the House of Lords, this gentleman states in his Evidence, p. 157.:—

1409.—"But with regard to the store of gold in the Issue Department, it seems to me important that it should be clearly understood that all the advantages to be derived from that gold, as forming part of the circulation, are really accorded to the public through the representative of that gold, viz. the bank notes. You put the gold into store, and instead of the gold you receive for your convenience bank notes. That being done, you must not afterwards say, 'But we have got so much gold in the cellar, it is absurd not to use it.' The answer is, 'Well, use the gold, but then give back the bank notes which have been issued to you against that gold, otherwise you want to have both the notes which represent the gold and the gold itself in circulation at the same time.'"

This reasoning appears to me neither just nor deducible from the facts of the case. The gold and silver appropriated to the Issue Department, and deposited there after the passing of the Bank Act, was the excess of bullion in the Bank beyond what was required for the circulation; the circulation did not require this portion of the bullion, nor does it require it when it is wanted for exportation: Mr. Loyd says, "All the advantages to be derived from that gold, as forming part of the circulation, are really accorded to the public through the representative of that gold, viz., the bank notes." But the gold is not wanted in order to "form part of the circulation;" it never was in the circulation; it would not remain in the circulation; the circulation being full admits no more: the public who want the gold are not the public among whom the bank notes circulate, but the international public,—the Great Mercantile Republic; those who want the gold for exportation.

The advantage sought in exchanging gold bullion for bank notes had no reference to the circulation in which they are not wanted, and in which they will not remain: the wants of the public, as respects the *circulation*, were not increased by the importation of the bullion: the bank notes, after having discharged their office as a medium of exchange in the purchase of commodities, will be returned to the Bank to remain there in deposit, and the Bank will then themselves hold the *bank notes* and the *gold:* the convenience sought by the bank notes was that of having a medium of exchange, as valuable as coin, in the home market, without any delay, and at the expense only of the difference between 3*l.* 17*s.* 10½*d.* and 3*l.* 17*s.* 9*d.*, or a little more than ⅛ per cent., which was charged by the Bank as a commission for the accommodation: with that accommodation the transaction ended; the gold remains in *store*, with a claimant in the form of the British public for domestic or national circulation, or of the foreign merchant for exportation: the nature of this claim cannot be altered by any private arrangement of the Bank, such as a division of departments: this regulation of the Bank cannot alter the force of the obligation to deliver the gold either to the depositor or to the bearer of the note. The gold is placed in *store*, to be returned when required by the public, where it remains, either for circulation or exportation as the wants of commerce may require. Is it fair to require from the exporter of bullion the bank notes which were given to the Bank by another party: to make these bank notes the *key* of the *chest* containing the gold, which key has been returned to the Bank, and which the Bank can retain by the power which the Act has conferred, of controlling the currency; and in the possession of which key the safety of the Bank and the security for the payment of the note is by the Act supposed to exist? But the note does not represent the gold; it represents the

"fortune, probity, and prudence," of the Bank, as implied in the promise to pay sovereigns on demand.

When Sir Robert Peel says, p. 57.:—"It is not probable that more than 22,000,000*l*. (of bank notes) can be made available for the legitimate demands of commerce:" the legitimate demands seem to be limited to the home circulation; are not the demands for bullion for foreign commerce, for international commerce, *legitimate*, and which bullion can be obtained from the Issue Department only by means of bank notes? Does not the Bank of England ignore the right of the Great Mercantile Republic?*

The real question is, whether those who may want gold for exportation, and who import the bullion, have placed it in the right *store;* whether it will not be more available in the *possession* of the *owners* of the bullion than in the custody of a national bank, of those who act as *bankers* as well as *storekeepers;* who apply this bullion to the purposes of the domestic circulation, who claim the right of withholding it whenever it may be thought needful for their safety as bankers: that is the great object of inquiry, and which I have endeavoured to elucidate in this Treatise.

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* See p. 164., *antè*.

CHAP. XIV.

ON THE EQUIVALENCY OF BANK NOTES TO COIN.

P. 27. SIR R. PEEL:—"We do not want an abundant supply of cheap promissory paper. We want only a certain quantity of paper, not, indeed, fixed and definite in nominal amount, but just such a quantity of paper and that only, as shall be equivalent in point of value to the coin which it represents. If the paper be cheaper than the coin it is an evil and not an advantage." Should it not be rather: We do not want cheap *loans* founded upon an issue of paper? It is the loan through the medium of paper which affects prices, by increasing the number of buyers. The increased prices will require an addition to the paper circulation, without at all disturbing the relative value of the paper to the gold, and if not wanted, will be restored to the banker.

P. 77. Sir R. Peel expounds his opinions, and which form the principle of his Bill, in the following words:—

"The present measure is not an extension of the principle of the Act of 1819; it is the fulfilment and complement of that Act, but it does not carry the principle of a metallic standard farther than it was carried by the Act of 1819. That Act restored a metallic standard; it required that promissory notes should not be issued excepting on the condition that they were convertible into gold at the will of the bearer. They are issued on that condition. Under the system that exists, they may not for a time conform in value to gold—they may be issued in excess—they may be the means of affording a greater degree of temporary accommodation, than could be afforded by a metallic currency—they may increase prices, and create for a time the appearance of prosperity. But they do all this with the certainty of ultimate reaction—the cer-

tainty that the time must come when, if you adhere to a metallic standard, and if you maintain it unaltered, that standard will assert its supremacy, will refuse to conform to the value of paper, and will require that paper shall conform to the value of gold. When the depreciation of the paper is sensible — when it becomes a matter of notoriety, the law enjoining its equivalency to coin will be enforced by every holder of paper, from the man whose whole property is a single five pound note, to the great capitalist, who influences the foreign exchange by the extent of his dealings in money. The certain means of realising a small profit will impel every holder of paper to demand coin in exchange. What advantages will there have been in the temporary accommodation? what advantage in the temporary increase of prices, if they are to be followed — as I contend they inevitably will — by such a contraction of paper as will make it equal in value to coin?

"Let us not confound that accommodation which is afforded by the liberal advance of capital, that increase of prices which springs from general prosperity and increased demand, with the accommodation and increase of prices, which rest on no surer foundation than an undue issue of paper. I call it an undue issue, if its value do not conform with that of the coin which it professes to represent, and which the law has made the measure of value."

How is it possible that notes that are "convertible into gold at the will of the bearer," and actually paid, can be of less value than the gold? How can they be depreciated? when does depreciation become sensible? when did it ever become a matter of notoriety? when did the holder of a five pound note ever demand the payment of the five sovereigns, "as a means of realising a small profit?" when did the great capitalist do the same? The equivalency of the paper to coin is tested by the performance of the promise to deliver coin on demand, and, if that is performed, how can the paper be depreciated?

There seems some confusion in using the words "metallic standard" and "metallic currency," as if the one *could* correspond with the other. If we had only gold and silver coin, and no paper money, that might be called a metallic currency; but whether we have gold and silver coin only, or gold and silver coin and promissory notes payable in coin to bearer on demand, we have in either case a metallic standard. If we had a metallic currency, the accommodation by

loans which now takes place on the circulation of promissory notes could not take place; that portion of capital or loan which the banker derives from his promissory notes could not be lent to the public, and prices might be lower, at least for a time, from the number of buyers and consumers being lessened, from the check to industry, from the absence of this loan; and really Sir Robert Peel's remarks have only reference to this accommodation. These loans are the only argument he adduces; for the depreciation of the note is quite imaginary. The holders of five pound notes think nothing of depreciation of the note, or of profit on coin, and the great capitalist who influences the foreign "exchange by the extent of his dealings in money," does not demand gold for exportation from any doubt of the equivalency of paper to coin; for if they were not equivalent he could not obtain coin for the paper, but he exports bullion either to pay the balance of debt, or to supply to foreigners that description of commodity, which is the most convenient for carrying on the round-about foreign trade, or because our manufactures and produce will not yield a profit in foreign countries.

The whole principle of Sir R. Peel's Bill is founded upon the notion that promissory notes may be depreciated, at the same time that they are payable, and are actually paid on demand.

Sir R. Peel adduces as a proof the Report of the Bullion Committee. He observes, p. 23.:—

"But I think experience shows that the paper currency, that is, the promissory notes payable to bearer on demand, stands in a certain relation to the gold coin and the foreign exchange in which other forms of paper credit do not stand. There are striking examples of this adduced in the Report of the Bullion Committee of 1810, in the case both of the Bank of England and of the Irish and Scotch Banks."

P. 23. "In the case of the Bank of England, shortly after its establishment, there was a material depreciation of paper in consequence of its excessive issue. The notes of the Bank of England were at a discount of 17 per cent. There was no doubt as to the solvency of the Bank, for bank stock, on which 60 per cent. had been paid, was selling at 110 per cent. After trying various ex-

pedients, it was at length determined to reduce the amount of bank notes out standing. The consequence was an immediate increase in the value of those which remained in circulation, the restoration of them to par, and a corresponding improvement in the foreign exchanges."

But although the Bank of England notes were payable to bearer on demand, it does not follow that they were actually paid. The Bank of England notes were payable to bearer on demand, but were not actually paid, and I find from Gilbart's "History and Principles of Banking," p. 30., this account of the Bank of England in the year 1697: —

"Bank notes were from fifteen to twenty per cent. discount. During the recoinage in 1696, the Bank had issued their notes in exchange for the clipped and deficient coin previously in circulation, and they were not able to procure from the Mint a sufficient quantity of the new coins to discharge the notes presented to them for payment. They paid some of their notes by bills, bearing interest at six per cent. They also advertised, that while the silver was recoining, such as think it fit for their convenience, to keep an account in a book with the Bank, may transfer any sum under five pounds from his own to another man's account."

Adam Smith also says (b. v. c. 3. v. iii. p. 393.): —

"During the great re-coinage in King William's time, when the Bank of England thought proper to put a stop to its usual transactions, Exchequer bills and tallies are said to have sold from 25 to 60 per cent. discount; owing partly, no doubt, to the supposed instability of the new government established by the Revolution, but partly, too, to the want of the support of the Bank of England."

Adam Smith (b. ii. c. 2. v. ii. p. 66.): —

"In 1696 tallies had been at forty, and fifty, and sixty per cent. discount, and bank notes at 20 per cent.* During the great re-coinage of the silver which was going on at this time, the Bank had thought proper to discontinue the payment of its notes, which necessarily occasioned their discredit."

From the above statements it appears that, although the promissory notes of the Bank of Eng-

* James Postlethwaite's History of the Public Revenue, p. 301.

land were payable to bearer on demand, they were not actually paid.

The case of Ireland adduced, which happened in the year 1804, was during the Bank Restriction Act, when the promissory notes, although payable to bearer on demand, were not actually paid.

With respect to the Scotch banks, Adam Smith informs us (b. ii. c. 2. v. ii. p. 76.): —

"Some years ago, the different Banking Companies of Scotland were in the practice of inserting into their bank notes, what they called an optional clause, by which they promised payment to the bearer, either as soon as the note should be presented, or in the option of the directors, six months after such presentment, together with the legal interest for the said six months."

P. 77. "The promissory notes of those Banking Companies constituted at that time the far greater part of the currency of Scotland, which this uncertainty of payment necessarily degraded below the value of gold and silver money."

These promissory notes were not payable to bearer *on demand;* or did the instances occur during the bank restriction ?

We may I think safely reject, as erroneous, the notion that promissory notes payable to bearer on demand and *actually paid* on presentation, can by any possibility be depreciated below the coin that may be obtained for them, or can ever cease to be equivalent to coin in the home market.

Sir Robert Peel considers gold, whether coin or bullion, as any other merchandise exported *for profit.* He considers *the profit* to be derived from the sale of the money, not from the *goods only* which are bought with the gold or money; and as scarcity and a less abundant supply enhance the value or price of other merchandise, so a scarcity of gold or paper money would enhance the value or price of gold in coin or bullion, and retain it in this country or cause its importation. He thinks the currency is to be made more valuable in this country, and the importation of bullion more profitable to the foreign merchant who sends it; hence his wish and purpose to give the Bank of England a greater control over the currency, in order to enhance its *value.*

But gold can only be made dear relatively to commodities by enhancing its power of purchasing a larger quantity in exchange, or lowering the prices; which is to give the Bank of England a power over the property of every manufacturer, and merchant, and holder of goods, by lowering the prices of all articles exchanged for gold or money.

The Bank Bill acts upon prices through its action upon the currency or loan. It is a contest, as respects the exportation and importation of gold, between the Bank of England and the Great Mercantile Republic. It is a contest, as respects the manufacturer and the *national* traders, between the Bank of England and all holders of property. I submit that *the remedy is for the Great Mercantile Republic to retain always possession of its own bullion, and to reduce the liability of the Bank of England to the duty of paying its own notes and deposits from its own resources, as other bankers.*

Sir R. Peel defines money to be "coin and promissory notes payable to bearer on demand." By the same rule bullion and bills of exchange may be called money. The former is national, the latter international money. As foreign bills of exchange cannot be depreciated relatively to the bullion in which they are paid, so neither can the national paper circulation be depreciated relatively to the coin in which the bank note is paid.

The foreign bill may never be paid, and the bank note may never be paid; but this involves no depreciation of the foreign or domestic currency, but a depreciation of the promise to pay the coin or the bullion; because a great number of foreign bills of exchange were returned protested for nonpayment, it would be very unreasonable to say that the currency of that country was depreciated, and equally unreasonable would it be to say that the domestic currency was depreciated, because a great number of banks had stopped payment. When bills are wanted to be remitted for payments due to a foreign country, and

none are to be had, the exchange brokers draw bills on that country, and send bullion to pay them. To say that the gold is sent abroad because it is profitable merchandise, seems as incorrect as to say, that the bills are sent abroad as profitable merchandise. The gold and the bill answer the same purpose in facilitating the exchange of commodities, as the instruments of commerce. There is no profit on the bill, or on the gold, as merchandise. A commission may be paid to the broker for his trouble, as well as insurance and freight. But these are charges paid by the purchaser of the bill, and, although an advantage to the bill broker, the shipowner, and the insurer, it is not derived from any trafficking with the bill or bullion, as merchandise seeking a market for the benefit of the exporter. There is no profit in the payment of debt either to the payer or receiver.

Adam Smith very truly observes (b. iv. c. 1. v. ii. p. 225.): —

"The transportation of commodities, when properly suited to the market, is always attended with a considerable profit; whereas that of gold and silver is scarce ever attended with any. When those metals are sent abroad in order to purchase foreign commodities, the merchant's profit arises, not from the purchase, but from the sale of the returns. But when they are sent abroad merely to pay a debt, he gets no returns, and consequently no profit."

CHAP. XV.

ADAM SMITH ON BANKING: ON NATIONAL AND INTERNATIONAL BANKS: AND INTERNATIONAL TREASURIES.

It seems quite contrary to sound reasoning and to approved practice, that any promissory notes should be issued on that coin, which is kept by a banker to supply occasional demands. It is like a stock in trade, and should be itself perfectly free and disengaged.

Adam Smith supposed that one fifth might be a sufficient reserve of coin (b. ii. c. 2. v. ii. p. 26, 27.): —

"A particular banker lends among his customers his own promissory notes, to the extent, we shall suppose, of a hundred thousand pounds. Though some of those notes are continually coming back upon him for payment, part of them continue to circulate for months and years together. Though he has generally in circulation, therefore, notes to the extent of a hundred thousand pounds, twenty thousand pounds in gold and silver may, frequently, be a sufficient provision for answering occasional demands. By this operation, therefore, twenty thousand pounds in gold and silver perform all the functions which a hundred thousand could otherwise have performed. The same exchanges may be made, the same quantity of consumable goods may be circulated and distributed to their proper consumers, by means of his promissory notes, to the value of a hundred thousand pounds, as by an equal value of gold and silver money. Eighty thousand pounds of gold and silver, therefore, can in this manner be spared from the circulation of the country; and if different operations of the same kind should, at the same time, be carried on by many different banks and bankers, the whole circulation may thus be conducted with a fifth part only of the gold and silver which would otherwise have been requisite." (There was no five pound tender clause when Adam Smith wrote.)

It may be doubted if Adam Smith is correct in supposing that if a particular banker circulates one

hundred thousand pounds in his promissory notes, that these notes only supply the place of gold and silver that would otherwise circulate there; this may apply to one and two pound notes, and in a less degree to the five, six, and ten pound notes, and to notes below a pound, to notes for shillings, but the notes of a banker for 20*l.* and 50*l.* circulate among a different class of dealers from those among whom circulate the gold and silver; they do not displace entirely or in a great degree the gold and silver coins; they displace rather other forms of credit, which are not so convenient. As a bar of gold of twenty, thirty, or fifty pounds' value would not circulate among small dealers or retailers; the larger denominations of notes rather supply the place of the bills of exchange and cheques; they enable the banker to lend on convertible securities that amount or a portion of it, and so to furnish the trading public with additional loan; but the same author observes (b. ii. ch. 2. v. ii. p. 69.): —

"It is not by augmenting the capital of the country, but by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country. That part of his capital which a dealer is obliged to keep by him unemployed and in ready money for answering occasional demands, is so much dead stock, which, so long as it remains in this situation, produces nothing either to him or to his country. The judicious operations of banking enable him to convert this dead stock into active and productive stock; into materials to work upon; into tools to work with, and into provisions and subsistence to work for; into stock which produces something both to himself and to his country."

Promissory notes, bills of exchange, and other forms of credit should all be placed in the same category; and each form has its peculiar and distinct province, which is determined by the convenience of the trading community, in the same manner as the use of different kinds of coin is determined by the same convenience.

As the trader was formerly obliged to keep by him a certain amount of money to answer occasional

demands, which was so much unproductive stock, so must the judicious banker keep by him a certain amount of coin to meet the occasional demands of the public for coin, in exchange for his notes; that amount is supposed in the instance given by Adam Smith to be one fifth, or twenty thousand pounds upon a circulation of one hundred thousand. The banker is supposed to have one hundred thousand pounds in circulation, and twenty thousand in his coffers. It is to be remarked that no issue of notes is supposed to take place on these twenty thousand pounds in coin. These coins are a dead and unproductive stock in the hands of the banker; it is his stock in trade, and is unproductive, as the stock in trade of a tradesman; and it would appear very strange that he should attempt to issue any notes upon this sum of money, which is kept purposely to give in exchange for notes, as the convenience of the public may require; these gold and silver coins are not the basis of the banker's circulation, that circulation rests upon his available securities, and is sustained by the confidence which the public have in the "fortune, probity, and prudence" of the banker; if that confidence be shaken, the whole amount of his promissory notes and of his deposits may be demanded, the gold and silver would soon disappear.

Adam Smith (b. ii. c. 2. v. ii. p. 34.): —

"It is chiefly by discounting bills of exchange, that is, by advancing money upon them before they are due, that the greater part of banks and bankers issue their promissory notes. They deduct always, upon whatever sum they advance, the legal interest till the bill shall become due. The payment of the bill when it becomes due, replaces to the Bank the value of what had been advanced, together with a clear profit of the interest. The banker who advances to the merchant, whose bill he discounts, not gold and silver, but his own promissory notes, has the advantage of being able to discount to a greater amount by the whole value of his promissory notes, which he finds, by experience, are commonly in circulation. He is thereby enabled to make his clear gain of interest on so much a larger sum."

The banker who lends his money, and the banker

who discounts bills before they are due, in both cases commonly lends his promissory notes upon the bills or securities he receives; he does not lend or discount with his gold and silver; that is kept in order to answer occasional demands for coin in exchange for his notes; he lends his notes upon bills or securities that are continually falling due, and replacing to him the money that he has lent.

But if the most judicious operations of banking consist in lending and thereby rendering active and productive the different sums which would otherwise be idle in the coffers of different traders, and if the promissory notes are circulated by discounting bills of exchange, by substituting one form of paper credit which circulates as money in the payment of debt, and in the circulation of commodities, instead of a form of credit which entitles the bearer to money at a future day, and if a certain amount of gold and silver should always remain in the coffers of the banker to supply the wants of the public in substituting coin for promissory notes; if this coin should be devoted to the use of the public for their convenience, being indeed the property of a portion of the public, belonging to them before the banker issued his promissory notes, and exchanged for his notes only upon the express promise of restoring it when demanded, how much more sacred should be the deposit of *bullion* confided to the safe custody of the national banker, confided to him as the banker of the world, of the great mercantile republic, to whom this bullion is the safeguard against unprofitable commerce, a resource against the necessity of purchasing commodities at such high prices, as would leave only a loss, and absolutely necessary when wanted to carry on a round-about foreign trade of consumption.

If the private banker cannot safely issue promissory notes upon coin, which may at any time be wanted for the convenience of the public, because, by discounting with this gold, he would encroach on a sum sacred to the use and convenience of the public, and

necessary for his own safety; neither should a national bank, which receives the bullion of the great mercantile republic, issue notes upon this bullion, over which it ought to have no control, which may at any time be wanted by the great mercantile republic, which may be demanded at any time, conformably to the promise or engagement given to restore it when demanded.

How, then, can the issue of notes upon bullion by the Bank of England, to the extent of more than half its circulation, be justified upon any principle of justice or prudence, confounding the bullion of the great mercantile republic with the coin required for the home circulation?

The exportation of bullion will render the exchanges more favourable; it is the natural remedy, and the safe resource of the foreign merchant.

The exportation of bullion will pay the balance of debt, which will limit the loss of the merchant and manufacturer, on account of the exchange, to the expense of transmitting the precious metals.

The exportation of bullion, instead of manufactures, when the bullion is required by the foreign merchant as a commodity, because the prices of manufactures and produce are too high to promise any profit abroad, will have a tendency to lower prices by the cessation of the demand; if a few millions are exported of gold instead of manufactures, the demand to that extent having ceased, the prices will be reduced to a certain degree, upon the legitimate ground of supply and demand, and no disturbance will take place.

The exportation of bullion should be free as air, and no one but the owner should have any control over it.

The payment of promissory notes in the domestic circulation should be free as air; no evasion, or delay, or obstruction should be tolerated.

This great and magnificent country should not accommodate its extended commerce to any *monetary*

system, but the *monetary system* should be subservient to the commerce of this mighty empire, and their interests should not be opposed the one to the other. The Bank should be subservient to the country, and not the country to the Bank:—

> "Imperat aut servit Collecta Pecunia cuique."
> HORACE.

It is a question of justice, and not of calculation, of the rights of property, and not of the exchanges. We should imitate the States of the United Provinces, "that sober and religious country;" like the city of Amsterdam, our splendid metropolis should establish, or enjoy, the advantage of a bank upon the same principle. B. iv. c. 3. v. ii. p. 289.:—

> "Public utility, however, and not revenue, was the original object of this institution. Its object was to relieve the merchants from the inconvenience of a disadvantageous exchange."

But it rendered a greater benefit than this, and which is not noticed by Adam Smith. This eminent author makes mention of "international money," but makes no allusion to an international bank; to a treasury of many nations. Such a bank was the Bank of Amsterdam; and as the warehouse or storehouse of Europe for the precious metals, as a safe depository for the bullion of Europe, it rendered more important services than in rectifying the exchanges. Why should not England attain the same distinction? How contrary to every just principle is it, that the issue of the national promissory notes should be based upon international money, to which the Bank of England has not the slightest claim of ownership; and how much more unjust that the Bank of England should have recourse to measures to defeat or to evade the delivery of the bullion they hold on trust!

Adam Smith treated of banking, only as it concerned private or joint stock banks, substituting promissory notes for gold and silver, only as it regarded

the domestic circulation. Although he draws a very accurate distinction between the national money and the international money; between the money or coin of the domestic circulation, and the bullion which circulates among different countries, and reasons upon the peculiar functions of each, and notices the Bank of Amsterdam as being the great warehouse for the bullion of Europe; yet he does not allude to any necessity of such a bank as that of Amsterdam, where foreign coins do not circulate; he considers the only use of such a bank to be to rectify and ascertain the exchanges, and never alludes to the want which every nation must have of an *international bank or treasury;* he did not perceive that the advantage of the Bank of Amsterdam was not confined to the circumstance of providing the merchants of Amsterdam "with a sufficient quantity of good money to pay their bills of exchange," nor to the preventing the good money being melted down or carried away, nor to the obtaining of a par of exchange; the benefit was, perhaps, still greater than even all these advantages, great as they were, in its being "the great warehouse of Europe for bullion," and no party in the state having any interest in this bullion except those or their representatives, individually, who deposited the bullion.

Adam Smith wrote (1775) when the "Bank of Amsterdam had for many years past been the great warehouse of Europe for bullion." (B. iv. c. 3. v. ii. p. 284.) Of the Bank of England he says (b. ii. c. 2. v. ii. p. 65.), "The Bank of England is the greatest bank of circulation in Europe." (B. ii. c. 2. v. ii. p. 43.)

It will be perceived, that since Adam Smith wrote, the circumstances of the Bank of England have entirely altered. It now combines the business of the Bank of Amsterdam with the business it carried on when Adam Smith wrote. It is the great warehouse for bullion, and it is the greatest bank of circulation in Europe.

It is a bank of circulation, which the Bank of Am-

sterdam was not, and it is the great warehouse for bullion which it then was not; it has undertaken the important functions of the Bank of Amsterdam without any of the securities or checks that were used regarding the Bank of Amsterdam.

The two characters are inconsistent, of conservators of the bullion, of the *international money*, and most commodious commodity, and, at the same time, of a bank of circulation. The mystery consists in blending these two distinct and independent characters. A storekeeper trading with the goods deposited with him; an international banker and a national banker; creating antagonism where only harmony should prevail; these are the characters to be kept distinct, these are the properties to be appropriated to their lawful owners; these are the interests to be kept entirely separate.

So far from Adam Smith supposing that gold and silver were warehoused in the Bank of England, he thought that only so much of it could be kept in England as would supply the demand for coin and plate.

Supposing the whole importation of gold was on account of Great Britain, he observes (b. iv. c. 6. v. ii. p. 373.):—

"It is but a very small part of this importation which, it can be supposed, is employed as annual addition either to the plate or to the coin of the kingdom. The rest must all be sent abroad, and exchanged for consumable goods of some kind or other."

As the *domestic* circulation consists of coin and Bank of England and other bank notes payable to bearer on demand, and also of the inland bills and other descriptions of paper money employed in the circulation of commodities in the home trade; so the *international* circulation consists of bills of exchange, and other descriptions of international securities, and gold and silver bullion: neither coin (as coin) nor notes have an international circulation; foreign engagements are discharged by bills or bullion, or an

exchange of commodities; the importer of bullion receives in England, in return for his international money, Bank of England notes, with which he can purchase foreign bills, or manufactures, or produce of any kind.

The Bank of Amsterdam, confining its operations to the foreign demand, never paid or returned the bullion in the form of circulating coin (of Amsterdam currency), which the Bank of England does, and which is one cause of confounding the national with the international money, which may advantageously be kept distinct, and which would be the case on the plan that I have suggested of a bank of exchange.

Since the extinction of the Bank of Amsterdam on the invasion of the French in 1795, there has been no similar institution established—no international treasury and exchange bank, no "great warehouse of Europe for bullion,"—simply a bank of deposit, neither lending money nor discounting bills,—unless the Bank of Hamburgh may form, in a certain degree, an exception,—although it can scarcely come under the description of a treasury for the bullion of the great mercantile republic.

In the absence of such an institution established by the merchants and manufacturers, we have seen the Bank of England suspend, under the authority of the Government, the payment of its promissory notes for a quarter of a century, in defiance of the promise expressed in the note—we have seen the Bank of France suspend the payment of its promissory notes for two years—we have had panics and alarming disturbance affecting the banking and commercial interests to a frightful extent, and committees have been appointed in vain to seek a remedy.

Why should we hesitate to profit by the experience of the Bank of Amsterdam; to separate entirely the issue of notes and the loan of money from the treasury of the great mercantile republic? Here is an example of an exchange bank and treasury established by merchants for the convenience of merchants

and for the security of commerce. Will the merchants of the nineteenth century yield to the enlightened merchants of Amsterdam in their love of independence, and of that self-respect and self-reliance which must result from their being the guardians of their own bullion, that most convenient commodity, and the possession of which is essential to the maintenance of their character and reputation? May it not be said that, in the absence of these international treasuries, all has been confusion in the monetary systems of commercial nations?

It may be thought that I have designated too exclusively the Bank of England, as the warehouse for international bullion. I am aware of the large quantity of the precious metals deposited in the Bank of France; my reasoning, if just, applies to the Bank of France and to all national banks, which combine with the issue of the national circulation of promissory notes payable to bearer on demand, the custody of the international bullion; and also to the merchants and manufacturers, where such banks exist.

CHAP. XVI.

ON AN OVER-ISSUE OF BANK NOTES, AND ON THE BANK OF AYR.

In the account which Adam Smith gives of the Ayr Bank, he appears to have attached an undue importance to the drain upon the Bank for gold, in consequence of an over-issue of paper beyond what the circulation could absorb — the demand may have arisen from the profit arising from the difference between the mint price, and the bullion price of gold in consequence of the deficient weight of the circulating coin; as was the case with the Bank of England.

Adam Smith (b. ii. c. 2. v. ii. p. 41.) observes: —

"By issuing too great a quantity of paper, of which the excess was continually returning, in order to be exchanged for gold and silver, the Bank of England was for many years together obliged to coin gold to the extent of between eight hundred thousand pounds and a million a year; or, at an average, about eight hundred and fifty thousand pounds. For this great coinage, the Bank (in consequence of the worn and degraded state into which the gold coin had fallen a few years ago) was frequently obliged to purchase gold bullion at the high price of four pounds an ounce, which it soon after issued in coin at 3*l.* 17*s.* 10½*d.* an ounce, losing in this manner between two and a half and three per cent. upon the coinage of so very large a sum. Though the Bank, therefore, paid no seignorage, though the Government was properly at the expense of the coinage, this liberality of Government did not prevent altogether the expense of the Bank.

"The Scotch banks, in consequence of an excess of the same kind, were all obliged to employ constantly agents at London to collect money for them, at an expense which was seldom below one and a half or two per cent. This money was sent down by the waggon, and insured by the carriers at an additional expense of three quarters per cent., or fifteen shillings on the hundred pounds."

P. 43.:—

"The Bank of England, it is to be observed, by supplying its own coffers with coin, is indirectly obliged to supply the whole kingdom, into which coin is continually flowing from those coffers in a great variety of ways. Whatever coin, therefore, was wanted to support this excessive circulation both of Scotch and English paper money, whatever vacuities this excessive circulation occasioned in the necessary coin of the kingdom, the Bank of England was obliged to supply them. The Scotch banks, no doubt, paid all of them very dearly, for their own imprudence and inattention. But the Bank of England paid very dearly, not only for its own imprudence, but for the much greater imprudence of almost all the Scotch Banks."

Is it not quite clear that the demand for gold arose from the profit on melting the coin and selling it as bullion? the coin was received at the rate of 3*l.* 17*s.* 10½*d.*, and sold as bullion for four pounds an ounce—leaving to the trafficker in money a profit of two and a half to three per cent.

Is not this a much more rational and easy solution of the demand for gold, than referring it to the over-issue of notes, which, without this inducement to demand coin, would have been returned to the Bank to be placed to the credit of the depositor, as is done at the present day, when no such traffic in coin can afford a profit, particularly as it is stated—

P. 42.:—

"The gold coin which was paid out, either by the Bank of England or by the Scotch banks, in exchange for that part of their paper which was over and above what could be employed in the circulation of the country, being likewise over and above what could be employed in that circulation, was sometimes sent abroad in the shape of coin, sometimes melted down and sent abroad in the shape of bullion, and sometimes melted down and sold to the Bank of England, at the high price of four pounds an ounce. It was the newest, the heaviest, and the best pieces only, which were carefully picked out of the whole coin, and either sent abroad or melted down. At home, and while they remain in the shape of coin, those heavy pieces were of no more value than the light; but they were of more value abroad, or when melted down into bullion, at home."

We find that it was the "heaviest" coins only which were melted or exported—we have seen, in the

case of the moidores and louis d'or, how small a profit will occasion the disappearance of the gold coin—and I think we may safely conclude that it was "in consequence of the worn and degraded state into which the gold coin had fallen," that the gold coin was demanded in exchange for the paper money, and not in consequence "of the paper being over and above what could be employed in the circulation of the country." An issue of notes may have been occasioned by this traffic; had the Bank lessened its circulation it would not have prevented it; the remedy was to be found in reforming the gold coin, which would restore the equality between the mint price and the bullion price, and destroy all profit.

Adam Smith (b. ii. c. 2. v. ii. p. 60.), on the Bank of Ayr, observes: —

"The estates of the proprietors of this bank were worth several millions, and, by their subscription to the original bond or contract of the Bank, were really pledged for answering all its engagements. By means of the great credit which so great a pledge necessarily gave it, it was, notwithstanding its too liberal conduct, enabled to carry on business for more than two years. When it was obliged to stop, it had in the circulation about two hundred thousand pounds in bank notes. In order to support the circulation of those notes, which were continually returning upon it as fast as they were issued, it had been constantly in the practice of drawing bills of exchange upon London, of which the number and value were continually increasing, and, when it stopt, amounted to upwards of six hundred thousand pounds. This Bank, therefore, had, in little more than the course of two years, advanced to different people upwards of eight hundred thousand pounds at five per cent. Upon the two hundred thousand pounds which it circulated in bank notes, this five per cent. might, perhaps, be considered as clear gain, without any other deduction besides the expense of management. But upon upwards of six hundred thousand pounds, for which it was continually drawing bills of exchange upon London, it was paying, in the way of interest and commission, upwards of eight per cent., and was consequently losing more than three per cent. upon more than three-fourths of all its dealings."

There can be little doubt that the Bank of Ayr failed from improvident loans and its expensive mode of raising money, and not from the over-issue, and the consequent demand for gold, which demand may

have existed in any state of the circulation; from the worn and degraded state of the gold coin, as explained in the case of the Bank of England.

The following judicious observations on the Ayr Bank by Adam Smith are deserving of attention from those who imagine that gigantic banking establishments, with an enormous capital and circulation, are advantageous to a country.

P. 63.: —

"But though this operation had proved not only practicable, but profitable to the Bank as a mercantile company; yet the country could have derived no benefit from it, but, on the contrary, must have suffered a very considerable loss by it. This operation could not augment, in the smallest degree, the quantity of money to be lent. It could only have erected this bank into a sort of general loan office for the whole country. Those who wanted to borrow, must have applied to this bank, instead of applying to the private persons, who had lent it their money."

Is not the Bank of England a sort of general loan office for the whole country? The Bank of England borrows from the public the money, which it pays for, either with its notes of circulation or by a credit in its books: it does not increase in any degree the quantity of money by itself borrowing, by means of its circulation, that money, which would otherwise be lent to different establishments of less extent, in return for the circulation of those more moderate banks, controlled in their issue by the wants of the public and the jealousy of rival banks.

The loan and circulation would be divided among many banks, instead of being confined in a great degree to one bank, by means of the monopoly which the Bank of England enjoys of the circulation of promissory notes within the circuit of 65 miles of London, subject only to the circulation of private banks not having more than six partners.

The following evidence is important as to the impossibility of increasing the circulation upon the Scotch system of banking.*

* Second Report of Committee on Commercial Distress, 1848.

Mr. J. G. Kinnear, engaged in trade in Glasgow about 14 years, and secretary to the Chamber of Commerce there, and selected by them to give evidence, examined by Sir R. Peel.

"6057. Do you object to that provision of the Bill of 1844, which prevented the establishment of new banks of issue in Scotland? — Yes, I do.

"6058. You think that it would have been desirable to permit new banks of issue? — Yes.

"6059. Did you see, shortly after the passing of the Bill of 1844, and before the Bill of 1845, some projects for the establishment of banks, founded upon the principle of giving accommodation to railway projects? — Such companies have been established in Scotland.

"6060. Do not you think that if they had the power of issue, they might have given undue facilities to railway projects? — I do not think that the power of issue would have enabled them to give undue facilities.

"6061. You do not think that they could have exercised that power injuriously? — I do not think they could.

"6062. Do not you think that they could have given undue facilities, if they had had an unlimited power of issue, without any obligation to keep gold in their coffers? — Any bank being established at that time in Scotland, or being established now, could not, I apprehend, by any possibility, obtain an amount of circulation above, certainly not above, 250,000*l.*; the total note circulation of Scotland being about three millions and a half, no new bank of issue could obtain circulation for their notes, except by displacing the notes of other banks: the same amount of three millions and a half would be divided among the issuing banks.

"6063 (*Chairman*). You are friendly to the convertibility of the note, are you not? — Yes, assuredly.

"6927 (*Mr. Hume*). R. Bell, Esq. Do you consider that you have any power of keeping out bank notes beyond what the immediate wants of your circulation require? — Not the least power. (By Sir *W. Clay.*)

J. F. Macfarlan, Esq. (Secretary to the Chamber of Commerce in Edinburgh.)

"7650. Is it your opinion, that if a fresh bank of issue were established now, they could get any more notes into circulation? — No; my opinion is that they could not.

"7651. That the circulation is quite full? — That the circulation is quite full. Parties, as soon as they have a sufficient sum, as low as 10*l.*, immediately bank it, and only keep that which is absolutely necessary for the transactions of the day; they generally draw in the morning, and bank in the afternoon.

CHAP. XVII.

ON LESSENING THE AMOUNT OF BANK OF ENGLAND NOTES IN CIRCULATION.

Adam Smith (b. ii. c. 2. v. ii. p. 69.):—

"The gold and silver money which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either. The judicious operations of banking, by providing, if I may be allowed so violent a metaphor, a sort of waggon-way through the air, enable the country to convert, as it were, a great part of its highways into good pastures and corn-fields, and thereby to increase very considerably the annual produce of its land and labour. The commerce and industry of the country, however, it must be acknowledged, though they may be somewhat augmented, cannot be altogether so secure, when they are thus, as it were, suspended upon the Dædalian wings of paper money, as when they travel about upon the solid ground of gold and silver. Over and above the accidents to which they are exposed from the unskilfulness of the conductors of this paper money, they are liable to several others, from which no prudence or skill of those conductors can guard them."

After mentioning, for example, an unsuccessful war, in which the enemy got possession of the capital, &c., he proceeds:—

"A prince, anxious to maintain his dominions at all times in the state in which he can most easily defend them, ought upon this account to guard, not only against that excessive multiplication of paper money which ruins the very banks which issue it, but even against that multiplication of it, which enables them to fill the greater part of the circulation of the country with it."

P. 73.:—

"It were better, perhaps, that no bank notes were issued in any part of the kingdom for a smaller sum than five pounds. Paper money would then, probably, confine itself, in every part of the kingdom, to the circulation between the different dealers, as much as it does at present in London, where no bank notes are issued under ten pounds value; five pounds being, in most parts of the kingdom, a sum which, though it will purchase, perhaps, little more than half the quantity of goods, is as much considered, and is as seldom spent all at once, as ten pounds are amidst the profuse expense of London."

AN ACCOUNT showing the average amount of BANK of ENGLAND Notes in circulation, distinguishing the denominations, together with the number of days the Notes remained out in the October quarter 1843, 1844, 1845, 1846, and 1847.

Pounds.	October 2nd, 1843.	Days.	October 2nd, 1844.	Days.	October 2nd, 1845.	Days.	October 2nd, 1846.	Days.	October 2nd, 1847.	Days.
5	4,879,000	88.	5,651,000	86.8	5,911,000	77.8	6,143,000	80.6	5,816,000	74.
10	3,440,000	91.3	3,881,000	91.4	3,992,000	78.3	4,046,000	79.5	3,759,000	73.6
20	1,221,000	67.4	1,417,000	66.7	1,473,000	58.6	1,458,000	58.9	1,398,000	54.3
	9,540,000		10,949,000		11,376,000		11,647,000		10,973,000	
30	302,000	23.2	264,000	23.	236,000	21.1	228,000	20.8	218,000	19.3
40	264,000	17.4	221,000	17.2	205,000	15.5	193,000	15.	180,000	13.3
	10,106,000		11,434,000		11,817,000		12,068,000		11,371,000	
50	1,548,000	46.2	1,751,000	48.5	1,773,000	39.8	1,660,000	40.1	1,636,000	37.
100	1,894,000	34.9	2,249,000	34.1	2,383,000	29.	2,243,000	27.1	2,294,000	26.2
200	392,000	14.8	399,000	14.4	400,000	12.9	373,000	12.3	362,000	10.9
300	370,000	12.2	397,000	12.4	388,000	10.8	381,000	10.8	354,000	9.
500	870,000	14.1	827,000	13.8	903,000	12.1	794,000	12.	803,000	10.3
1000	2,924,000	12.2	3,082,000	10.3	3,432,000	10.1	2,921,000	8.9	2,355,000	7.3
	18,104,000		20,139,000		21,096,000		20,440,000		19,175,000	

The preceding account was furnished to the Lords' Committee by James Morris, Esq., the Governor of the Bank of England. (P. 267. No. 3493.)

I have divided the statement showing the amount of notes in circulation not exceeding 20*l.*, and also the amount of notes not exceeding 40*l.*

If notes not exceeding 20*l.* were issued, the amount, according to this statement, would vary from nine millions and a half to eleven millions and a half. If not exceeding 40*l.*, it would vary from about ten to twelve millions. At the present issue of notes, the circulation varies from eighteen to twenty-one millions.

If we take the average of the total circulation at eighteen and a half to nineteen and a half millions, we shall not be very wrong; and allowing for an increase of circulation, in consequence of the withdrawal of the bank notes above 40*l.*, we may take the circulation at twelve to thirteen millions of notes of all denominations, if none were permitted to be issued above 40*l.*

If the payments in bank notes might be made for sums above 40*l.*, by giving two or three of these notes to supply the place of some of the notes of higher denomination, and the use of cheques for the same purpose; this would relieve the circulation, and the liability of the Bank to the extent of six or seven millions. The notes of a smaller denomination are those which supply the place of coin, and also circulate among the retail dealers. It will be observed, that the amount of circulation is principally of the 5*l.*, 10*l.*, and 20*l.*; chiefly the 5*l.* and 10*l.* notes. When the circulation in 1843 was 18,104,000*l.*, the 5*l.* and 10*l.* notes constituted 8,319,000*l.*, and the 20*l.* notes 1,221,000*l.*; together, 9,540,000*l.*, or more than one half of the circulation. The large notes rather supply the place of cheques on the Bank of England, and other banks, or remain in deposit in the banker's hands.

I submit whether it would not be desirable to

diminish in this way the amount of the circulation of the Bank of England; lessening in the same degree its liabilities; and whether any inconvenience felt by the London bankers or others is to be put in the scale, when weighed against the diminished liability of the Bank of England.

It was stated by J. A. Anderson, Esq., Manager of the Union Bank of Scotland, to the Committee (No. 6490.), that the circulation of Scotland was about 3,000,000*l.*, and this circulation may probably be composed of one pound notes, to the extent of one half. If so small a note circulation was sufficient for all Scotland, where the custom of drawing cheques must supply its place, surely the circulation in England, or rather in London and its neighbourhood, is unnecessarily large.

It was stated by John M'Donald, Esq., Governor of the Bank of Ireland, that the amount of their notes out with the public, in October 1847, was 3,152,000*l.* (No. 6637.)

It must appear extraordinary, that the total of notes in circulation in England by private banks, and joint stock banks in 1851, amounted only to about 6,000,000*l.*, while the circulation of the Bank of England was 18,869,846*l.*

The following is the statement of the circulation of the United Kingdom on February 22. 1851, as stated in the *Evening Mail* of April 11. 1851:—

Bank of England - - - -	£18,869,846
Private banks - - - -	3,386,975
Joint stock banks - - - -	2,685,756
	£6,072,731
Scotland - - - - -	3,033,235
Ireland - - - - -	4,620,912
	£7,654,147

We see, by this statement, that the total circulation of Scotland and Ireland was in 1851- £7,654,147

And of the private and joint stock banks of England - - - - - - 6,072,731

£13,726,878

And while the circulation of the Bank of England was - - - - - £18,869,846

The circulation of all other parts of the kingdom was - - - - 13,726,878

And the total circulation of the United Kingdom was - - - - £32,596,724

of which the Bank of England circulation constituted more than one half.

There can be no doubt that this disproportionate circulation must arise from the large notes being employed instead of cheques, of which they supply the place; if these large notes were withdrawn from the circulation, it would relieve the responsibility of the Bank of England to the extent of seven or eight millions. We find, when the circulation of the Bank of England in 1843 was 18,104,000*l.*, which may be considered a moderate circulation, the amount of notes above 200*l.* was 4,164,000*l.*, and the notes of 500*l.* were 870,000*l.*, and of 1000*l.* were 2,924,000*l.* Supposing that other notes were employed in greater quantity from the withdrawal of the notes of higher denomination, there can be no doubt that the circulation might be very considerably lessened.

If it were thought expedient, as the larger denomination of notes do not supply the place of coin, they might be subject to a stamp duty, like bills payable after date. That would test their utility, and the grievance would only be the payment of a tax; these notes are often employed to avoid the stamp duty, rather than from any wants of the circulation. These are means of diminishing the circulation of the Bank

of England promissory notes, which would be attended with no danger to commerce, and the Bank might be compensated for the loss it might sustain.

As the banks in Edinburgh make the exchange with each other by exchequer bills (see the Evidence of R. Bell, Esq., No. 6863.), and in Belfast by cheques on Dublin, and in Dublin by exchequer bills as in Scotland (see the Evidence of J. Bristow, Esq., No. 7312—7315.), might not the banks in London, and in the country and others make their exchange by cheques on the Bank of England, where bank notes of a high denomination are now employed?

The Bank of England by limiting the amount of its notes in circulation lessens in the same proportion its liabilities, and where cheques can be conveniently substituted there would be no embarrassment to commerce.

The reduction might be commenced with the large notes of 1000*l.* and 500*l.* I submit this suggestion upon the principle that the commerce of the country should not be made too dependent upon the circulation of the Bank of England, or of any bank or banks.

If the circuit within which the Bank of England has the exclusive privilege of circulating promissory notes were lessened, it would be another means of diminishing its liabilities.

If Joint Stock Banks, under what guarantee the Government might choose, had the privilege of issuing notes, that would still further reduce the liabilities of the Bank of England within its present circuit. So far back as 1832, it was stated to the Committee on the Bank Charter by George Carr Glyn, Esq. (p. 2956.), Digest, p. 56.: —

"With regard to the country, it might be better if Joint Stock Companies were allowed to make their bills payable in London under 50*l.*; and twenty or twenty-five miles ought to be the extent of the exclusive privilege of the Bank of England for the issue of notes, or the formation of companies in banking exceeding six partners. This would keep the circulation of London completely to the bank, without interfering with other establishments beyond their circle."

Sir Coutts Trotter (p. 3185.), *Digest*, p. 60.: —

"The circulation of the bank is confined within a narrower circle than the sixty-five miles, within which no other company can issue notes; that circle might be reduced to twenty-five miles without detriment. The wider the present currency extends, supposing it not to interfere with country establishments, the better."

Samuel Gurney, Esq. (p. 3621.), *Digest*, p. 71.: —

"Notes of 100*l.* and upwards, are most of them held by London Bankers."

George Ward Norman, Esq. (p. 2694.), *Digest*, p. 47.:—

"The difference between an individual and the Bank is, that the one may only ruin himself and connections, the other affects all the property of the kingdom. The Bank is instituted for the public service, and ought to be regulated by the Legislature to that end alone."

The cheques would be a private, personal liability, and the diminution of the circulation might be gradually introduced, and if distributed among several banks, the rivalry would reduce the amount; this, I think, is shown by the circulation of the private and joint stock banks, being so much below their fixed issues. The competition of banks has a tendency to lessen the circulation. What Adam Smith says of money or coin is true of paper money (b. ii. c. 3. v. ii. p. 96.): "Nobody buys it but in order to sell it again, as it yields no revenue."

Each banker gains by his own paper being in circulation; he gains nothing by retaining his own or his neighbour's, he is therefore anxious to part with both, and all acting upon the same principle, the circulation is reduced to the lowest amount that is consistent with the wants of the community; as is the case in Scotland, which is further promoted by the custom of granting daily interest upon very small deposits.

CHAP. XVIII.

WEEKLY STATEMENTS OF THE BANK OF ENGLAND.

BANK OF ENGLAND.

AN account pursuant to the Act 7th and 8th of Victoria, c. 32., for the week ending on Saturday, May 30, 1857.

ISSUE DEPARTMENT.

Notes issued . .	£ 23,801,395	Government debt	£ 11,015,100
		Other securities	3,459,900
		Gold coin and bullion . .	9,326,395
		Silver bullion .	
	£ 23,801,395		£ 23,801,395

BANKING DEPARTMENT.

Proprietors' capital	£ 14,553,000	Government securities (including dead weight annuity) . .	£ 10,326,131
Rest	3,302,357	Other securities .	18,302,575
Public deposits, including Exchequer, Saving Banks, Commissioners of National Debt and Dividend Accounts	6,264,419	Notes	4,723,920
Other deposits . .	9,225,549	Gold and silver coin	706,007
Seven day and other bills	713,308		
	£ 34,058,633		£ 34,058,633

Dated the 4th day of June, 1857.

M. MARSHALL, Chief Cashier.

The return from the Bank of England for the week ending the 30th of May gives the following results when compared with the previous week:—

Public deposits .	£ 6,264,419	Increase	£ 708,853
Other deposits . .	9,225,549	Increase	136,929
Rest	3,302,357	Decrease	49,450

On the other side of the accounts:—

Government securities . . .	£ 10,326,131	The same as before.	
Other securities .	18,302,575	Increase	£ 633,727
Notes unemployed	4,723,920	Increase	222,085

The amount of notes in circulation is 19,077,475*l.*, being an increase of 45,995*l.*; and the stock of bullion in both departments is 10,032,402*l.*, showing an increase of 227,575*l.* when compared with the preceding return.

The returns of circulation of the Irish and Scotch banks for the four weeks ending the 9th of May, when added together, give the following as the average weekly circulation of those banks during the past month, viz.:—

Average circulation of the Irish banks . . .	£ 7,155,184
Average circulation of the Scotch banks . .	3,932,834
Average circulation during past month . . .	£11,088,018

On comparing the above with the fixed issues of the several banks, as given in the Banking Almanac, the following appears to be the state of the circulation:—

The Irish banks are above their fixed issue . .	£800,690
The Scotch banks are above their fixed issue .	845,625
Total above the fixed issue	£ 1,646,315

The amount of gold and silver held at the head offices of the several banks during the past month have been as follows:—

Gold and silver held by the Irish banks . . .	£ 2,497,140
Gold and silver held by the Scotch banks . . .	1,588,707
Total of gold and silver held	£ 4,085,847

The above statements complete the returns of the circulation in England, Scotland, and Ireland for the month ending the 9th of May, 1857.

It appears from the *Banker's Magazine* that for the four weeks ending the 9th of May, 1857, from the returns of the circulation of private and joint stock banks in England and Wales, the circulation was:—

Private banks	£ 3,831,402
Joint stock banks	3,172,715
	£ 7,004,117

And that the private banks are below their fixed issues	£ 681,690
The joint stock banks are below their fixed issues	130,642
	£ 812,332

I have given the weekly account published by the Bank of England, by which are seen the debts and credits of the Issue Department and of the Banking Department. As the two departments are distinct, they may be considered as separate establishments.

The notes issued are stated to be 23,801,395*l.* for which the security is a debt due from the Government of 11,015,100*l.*, and other securities 3,459,900*l.*, and gold coin and bullion 9,326,395*l.*: the present payment in gold of the Government debt could not be enforced: the same may be said of exchequer bills: the circulation could not spare it: the gold and silver may be demanded at any time by the lawful claimants, the holders of promissory notes, and the depositors.

Although the bullion in the Issue Department is stated to be 9,326,395*l.*, yet the Banking Department has 4,723,920*l.* of this sum, as it holds, in the form of promissory notes, receipts for this amount of gold and silver which it has deposited in the Issue Department, reducing the gold coin and bullion at the disposal of that department to 4,602,475*l.*; at the same time the notes issued 23,801,395*l.* must be reduced by the amount of notes in the Banking De-

partment 4,723,920*l.*, making the notes actually in circulation to be 19,077,475*l.* as stated.

If the two departments were one, there would be be 9,326,395*l.* and 706,007*l.* together 10,032,402*l.*, being the amount of gold and silver in the two departments, to meet a circulation of 19,077,475*l.*, being a proportion of more than one half.

Adam Smith supposed one fifth in coin to be sufficient to meet the demands of the circulation of private bankers.

But the Bank of England supplies not only the demand for coin in exchange for its notes, but the demand for exportation of coin or bullion: and it virtually supplies the whole kingdom with coin.

Is it not most desirable to limit the liability of the Bank to the payment of its own notes in coin: to distribute among many banks the circulation of this one Bank, and to separate the demand for exportation from the liability of the Bank of England, and of all banks of circulation by the establishment of a bullion bank for the Great Mercantile Republic?

By the statement it is seen that the average circulation of the Irish banks in May, 1857, was 7,155,184*l.*, and of the Scotch banks, 3,932,834*l.*, together, 11,088,018*l.*; and that the circulation of private banks in England and Wales was 3,831,402*l.*, and of joint stock banks, 3,172,715*l.*, together, 7,004,117*l.*

Is it not extraordinary that the circulation of the Bank of England being 19,077,475*l.* is nearly double the circulation of the Irish and Scotch banks; and about a million more than the amount of the circulation of all the banks in Ireland and Scotland, and of the private and joint stock banks in England and Wales united?

At the same time the circulation of the private and joint stock banks are about 800,000*l.* below their fixed issues; and the Scotch banks and Irish banks are, each, about 800,000*l.* above their fixed issues.

Can any more convincing proof be given that

the *competition* of banks will determine the amount of circulation according to the wants of the community ?

Is it not also apparent that the circulation of the Bank of England could be greatly lessened, without any detriment to the community ? Would not this add to the security of commerce and industry ?

In the words of Adam Smith, b. ii. c. 2. v. ii. p. 70. :—

> " The commerce and industry of the country, however, it must be acknowledged, though they may be somewhat augmented, cannot be altogether so secure, when they are thus, as it were, suspended upon the Dædalian wings of paper money, as when they travel about upon the solid ground of gold and silver."

The following reasoning in the extracts from Adam Smith is, I think, founded upon an erroneous principle, b. ii. c. 2. v. ii. p. 38. : —

> " The whole paper money of every kind which can easily circulate in any country, never can exceed the value of the gold and silver, of which it supplies the place, or which (the commerce being supposed the same) would circulate there, if there was no paper money.
>
> " Should the circulating paper at any time exceed that sum, as the excess could neither be sent abroad nor be employed in the circulation of the country, it must immediately return upon the banks to be exchanged for gold and silver.
>
> " When this superfluous paper was converted into gold and silver they could easily find a use for it, by sending it abroad ; but they could find none while it remained in the shape of paper. There would immediately, therefore, be a run upon the banks to the whole extent of this superfluous paper, and if they showed any difficulty or backwardness in payment, to a much greater extent, the alarm which this would occasion necessarily increasing the run."

Adam Smith limits the circulation of paper money to the value of the gold and silver of which it *supplies the place ;* but the larger denominations of notes, such as 100*l*., 500*l*., and 1000*l*., do not supply the place of gold —they supply the place of bills and cheques : it is true, if not wanted for the purpose they are used—for the purpose of convenience—they would be returned to the Bank of England ; but not for gold, but to be placed in deposit, or to the credit of the

party returning them. When treating of the demand for gold from the Bank of England and the Bank of Ayr, I have attributed the demand for *gold* coin to the degraded state of the current coin, and not to an over-issue.*

Adam Smith supposes that an excess of issue of bank notes would cause a demand for gold to the amount of the excess, because the gold could be exported, and the bank notes could not be exported. The notes were issued as an instrument of loan, like any other description of paper money, and would be employed in the purchase of goods or to pay debt, and, having discharged this office, they would be returned to the issuer through the agency of rival banks: they would not, as is truly said, remain in circulation, but neither would this excess, *because it was superfluous*, be returned to the Bank for gold.

Sir Robert Peel differs from Adam Smith; he thinks that an excess of issue can be maintained, and that this excess actually circulates, and that from the circulation being in excess, it becomes depreciated relatively to the gold coin, and that a demand for gold arises from its being more valuable than the paper, and that the gold is exported in consequence of the foreign exchanges becoming unfavourable from a depreciation of the currency, which appears to me to involve a double fallacy; first, that the bank notes, while paid on demand in gold can possibly be less valuable than coin; and secondly, that the gold will be exported, in consequence of this depreciation of the bank note. The instrument of loan, the paper money, may be issued in excess, and will be returned to the bank — the loan may be in excess, and will continue in excess, without reference to the instrument by which it was made.

An excess of loan may occasion an exportation of gold, quite independently of the bank notes; a loan may be made without issuing a note, and in whatever

* See p. 188, *antè*.

mode effected, by increasing the power of purchase, may increase the prices of goods; and prices may rule so high, as no longer to yield any profit in the foreign market, and then goods will not be bought, and gold will be demanded for exportation, because it will leave no loss; the "most convenient commodity," — a most legitimate and wholesome use of it. Low prices requiring less coin and less notes to circulate the goods, both the gold and the notes may naturally be returned to the bank; the gold and the notes will often remain in deposit, when low prices and falling markets render trade unprofitable.

Lord Ashburton, p. 21.: —

"It is a great mistake to suppose that whenever gold is claimed from the Bank, notes are brought in, or that when accommodation is given by discount, notes go out. In nine cases out of ten those great transactions pass through deposits, and transfers from account to account, and not by notes; but deposits are considered as nothing, and the notes taken as the sole indication of the powers and dangers of the Bank. It is equally a mistake to suppose that the Bank has the power to keep out any amount of notes at its pleasure, supposing it even to disregard the danger of a drain of gold." *

Lord Ashburton is treating of the Bank Act of 1844, but although the claimant of *gold* may bring no notes, yet the banking department must give notes to the issue department for the gold — the gold can only be obtained by means of bank notes; it is true that accommodation or *loan* may be made by transfer of accounts, without the intervention of gold or notes.

Lord Ashburton agrees with Adam Smith, that the Bank has not "the power to keep out any amount of notes at its pleasure," thus confirming the opinions and experience of Mr. Kinnear, Mr. Bell, and Mr. Macfarlan, as expressed in their Evidence (see p. 191.).

The following evidence, given before the Committee of the House of Commons, 10th of March, 1848, is deserving of grave consideration: —

* "The Financial and Commercial Crisis considered," by Lord Ashburton. London, 1847.

James Morris, Esq., Governor of the Bank of England: —

"3170. If circumstances similar to what occurred last year should recur in this country, the country is to expect the same mode of treating the case on the part of the Bank? — Yes.

"3171. Whether it be an internal drain, or whether it be an external drain, the only remedy that the Bank direction consider ought to be applied, is restriction in some mode or other, they preferring a rise in the rate of interest, and leaving it to the Government to interfere when it thinks right? — I cannot speak to the opinion of the Bank, but I speak to my individual opinion; my own individual opinion is, that that is the case.

"3172. The Committee understand you to think that though interference was justifiable on the 25th, any previous interference would have been improper? — Yes; but I am not prepared to say that the interference on the 25th was unnecessary.

"3173. So that, according to your opinion, before the Government would be justified in interfering, we must have the same extent of panic and alarm, and of failures? — I think the Government would not be justified in interfering under a less state of alarm and excitement than prevailed on that occasion.

"3174. You draw no distinction between the case in October, when the demand was not from a foreign export of gold in any way, or an unfavourable state of the exchanges? — As far as the banking department of the Bank is concerned, it is immaterial to them whether the demand upon the reserve arises from an internal or an external drain."

P. H. Muntz, Esq., gave the following evidence:—

"1356. You say that the Bank of England did not begin to put on the screw early enough in 1846? — Quite early enough for me, but I think not early enough to prevent the suddenness that took place in their action afterwards.

"1357. Do you think it absolutely necessary for the Bank to put on the screw in order to create a turn in the Exchanges? — I think it is absolutely necessary; as long as the Bank issue is under the control of the Bank, they must be looked to as the responsible parties to control the monetary affairs of the nation."

John Horsley Palmer, Esq., a Director in the Bank of England, 29th February, 1848: —

"2112. It is by producing a fall in the value of all commodities in this country that you would correct the Exchange? — Yes; not merely in that way, but you would bring capital to this country; by the high rate of interest you stop credit; many persons trading with America, or with India and China, have found money so extremely scarce in this country that they have been forced to stop their operations.

"2113. It is by interference with trade that it acts, and not merely by the inconvenience it occasions to holders of bills? — It causes the stoppage of trade.

"2114. What would be the effect upon the manufacturers and labourers of the country during such an operation? — It destroys the labour of the country; at the present moment, in the neighbourhood of London, and in the manufacturing districts, you can hardly move in any direction without hearing universal complaints of the want of employment of the labourers of the country.

"2115. That you ascribe to the measure which it was necessary for the Bank to adopt, in order to preserve the convertibility of the note? — I think that the present depressed state of labour is entirely owing to that circumstance.

"2117. And the pressure produces forced sales? — It stops credit, and the British merchant sells his goods for the purpose of carrying on his payments, and brings back his capital at an earlier period than it would come in the ordinary course of trade."

It will be recollected that Mr. Palmer stated in his pamphlet, before referred to, and published in 1837, that—

"The fall in price of almost all the leading articles of raw produce (sugar, coffee, tea, silk, cotton, piece goods, metals, drugs, &c.) from the 1st of July last, when the rate of interest was first advanced, has not been less than from 20 to 30 per cent." *

It was to remedy this state of things that the Bank Act of 1844 was passed. Before and after the passing of the Act, the same grievance appears to have existed.

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* See page 129, *antè*.

CHAP. XIX.

MR. M'CULLOCH ON PAPER MONEY.

Mr. M'Culloch's edition of Smith's *Wealth of Nations*. On Money, s. 3., note 9., p. 489.

Mr. M'Culloch thus announces what he considers a very important principle: —

" Until very recently it was universally supposed that the ability to convert paper into gold, at the pleasure of the holder, was necessary to sustain its value. But it is plain, as well from the principles already stated, as from experience, that the mere limitation of the quantity of paper made legal tender is quite sufficient to preserve its value on a par with the value of gold, or to raise it higher.

" It may be worth while, perhaps, to observe that neither the existence nor the want of confidence in the solvency of the issuers exercises the smallest influence over the value of paper money, properly so called. Notes not legal tender, and payable on demand, or at some stipulated period, are not paper money, though they serve the same purposes, during the time they continue to circulate. The value of such notes is wholly derived from the confidence placed in the ability of the issuers to retire them, when presented for payment, or when they become due. Whenever, therefore, this confidence ceases, their circulation necessarily ceases also. But no such circumstances affect *paper money*, meaning by paper money, paper made legal tender, and not legally convertible into gold or anything else, at the pleasure of the holders, or at any given period. No part whatever of the value of such paper money is derived from confidence. It circulates because it is made legal tender, and because the use of a circulating medium is indispensable; and its value, supposing the demand to be constant, is in all cases inversely as the quantity in circulation."

As an example to illustrate this extraordinary theory of paper money, Mr. M'Culloch states: —

" In Russia, to give only one example, forty millions of paper rubles, or assignats, were issued in 1769 by the Government bank

established in the preceding year. There were some regulations with respect to the conversion of these assignats into copper; but M. Storch has shown that these were altogether illusory, and that, practically, the assignats were inconvertible. They were, however, made legal tender at the same rate as *silver* rubles; while, in order to insure their circulation, it was ordered that a certain proportion of the taxes due by each individual should be paid in them. In consequence of these regulations the assignats really formed a species of inconvertible paper money; and as their supply had not been originally excessive, and no further additions were made to it for about *eighteen* years, they continued, during the whole of that period, to circulate at about the same value as silver. In 1787, however, a fresh emission of sixty millions of additional assignats took place, which immediately depressed their value about eight per cent. under silver. And owing to successive emissions, the mass of assignats in circulation in 1811 was increased to the enormous sum of 577 millions, when they fell to a discount of 400 per cent. as compared with silver! Since 1815 the mass of assignats has been much diminished; and their value has uniformly increased with every diminution of their quantity. Can any more conclusive proof be required, to show that the value of such paper currency, as is legal tender, is always proportioned — other things being the same — to the quantity in circulation?"

In this instance there *was confidence;* a confidence that the Government would take this paper money as *silver rubles* in the payment of taxes, and when the amount exceeded the value of the taxes to be paid it fell accordingly; the legal tender alone would not maintain the value without this confidence, and when this confidence ceased the value of the paper money ceased, in proportion to the excess that could not be disposed of in this way. Can any more melancholy instance be given of the insecurity and mischief of an inconvertible paper circulation? A fall of 400 per cent. what misery! what ruin may have been occasioned! Have we forgotten the result of the issue of the French assignats?

(B. ii. c. 2., v. ii., p. 80.), Adam Smith mentions the circumstance of the paper in the American colonies being received in payment of taxes in the following terms: —

"The paper of each colony being received in the payment of the provincial taxes, for the full value for which it had been

issued, it necessarily derived from this use some additional value, over and above what it would have had, from the real or supposed distance of the term of its final discharge and redemption. This additional value was greater or less, according as the quantity of paper issued was more or less above what could be employed in the payment of the taxes of the particular colony which issued it. It was in all the colonies very much above what could be employed in this manner.

"'A prince, who should enact that a certain proportion of his taxes should be paid in a paper money of a certain kind, might thereby give a certain value to this paper money; even though the term of its final discharge and redemption should depend altogether upon the will of the prince. If the bank which issued this paper was careful to keep the quantity of it always somewhat below what could easily be employed in this manner, the demand for it might be such as to make it even bear a premium, or sell for somewhat more in the market than the quantity of gold or silver currency for which it was issued."'

He also observes (p. 79.): —

"It appeared by the course of exchange with Great Britain, that a hundred pounds sterling was occasionally considered as equivalent, in some of the colonies, to a hundred and thirty pounds, and in others to so great a sum as eleven hundred pounds' currency; this difference in the value arising from the difference in the quantity of paper emitted in the different colonies, and in the distance and probability of the term of its final discharge and redemption."

Let nations beware of adopting a theory of paper money, which consists in divesting the promise of all signification, or responsibility, if indeed any promise is to be expressed in the note, in rejecting the opinion of Adam Smith, that "fortune, probity, and prudence" are the foundation of the confidence of the public; for moral obligation substitutes quantity, making the value of the paper money depend upon this material quality, and not on the eternal and immutable laws of justice and of truth. Unluckily for the theory a condition is annexed, "supposing the demand to be constant;" this, it is to be feared, may destroy the beautiful structure of paper circulation described.

The alchymist in his laboratory sought only to convert one metal into another, the baser metal into the more precious; but modern science disdains the

tardy process; instead of the metal, the crucible and the fire employs only the simple materials of a pen, ink, and paper: these supply the place of gold by the talisman of "legal tender," and "because the use of a circulating medium is indispensable."

A paper money "not legally convertible into gold or anything else at the pleasure of the holders, or at any given period," "depending for its value upon the quantity in circulation," and "deriving no part whatever of its value from confidence," seems the legitimate and worthy progeny of the incubation of the new theory of monetary science.

CHAP. XX.

LORD ASHBURTON AND J. HORSLEY PALMER, ESQ.

In a pamphlet published in 1837 by Mr. Horsley Palmer *, are the following remarks: —

P. 48.: —

"Adverting, therefore, to the mischief which appears to have attended the uncalled-for encouragement given to Joint Stock banks in England, while the advantage of those bodies is admitted in countries differently situated, it becomes the duty of Government to bring the subject under the consideration of Parliament, and to propose such regulations as may check the unlimited formation of such institutions hereafter, in places where banks already exist, affording every security and accommodation which the district may require. And, further, to regulate the future management of those now in existence, in order to guard against a recurrence of that excess in the circulating medium, which, on a late occasion, neutralised the influence of the contraction of the circulation of the Bank of England, and occasioned a serious, it may be said ruinous, pressure upon the money market. Unless measures, having those objects in view, be adopted with firmness on the part of the Government, a repetition of the pressure will no doubt recur with increased violence."

P. 50.: —

"So dangerous does the system appear, *as it now stands*, that it becomes questionable whether the Bank of England and the bodies in question can *permanently exist together*."

P. 51.: —

"Whether the Bank of England, as now constituted, be the establishment most capable of upholding public and private credit, or whether its sphere of action should be extended or contracted, are public questions."

* "Causes and Consequences."

This was seven years before the passing of the Bank Act of 1844. Three years after the passing of that Act and ten years after the publication of Mr. Palmer's pamphlet, appeared a treatise on the "Financial and Commercial Crisis of 1847," by Lord Ashburton.

He commences by observing:—

"The recurrence at the present time of one of those visitations of commercial and financial distress, of which I have during a long life experienced so many, has once more forced upon the consideration of Parliament and the public, the interminable subject of banking and circulation. . . . . .

"The prudence and sagacity of merchants not being in fault, we are naturally led to look for our difficulties in the derangement of our monetary system, and there, beyond all doubt, they will be found."

P. 4.:—

"The last notable settlement of this endless controversy was by the Bank Charter Bill of 1844, and the great leaders on both sides of the House of Commons are resolved to defend it, in spite of the unfortunate fact that on the first occurrence of what is called a crisis, the failure is apparent in the evidence of a state of embarrassment and difficulty never exceeded."

P. 5.:—

"Now, my object in appearing before the public is to endeavour to maintain, with as few words as the case will permit, the opinion I gave when the Charter Act was before the House of Lords, that the expectations entertained of this infallible panacea were unfounded,—that it would only work in fair weather, when restrictions of all sorts are inoperative and immaterial,—that it could not fail to break down under the first difficulty,—and that it is in fact a serious aggravation, if not, indeed, the actual cause of the distress we now experience."

P. 4.:—

"The various schemes for regulating the action of banks have been propounded with unhesitating confidence, and pronounced to be unfailing, although every real trial of this great practical problem proves that it still remains to be solved."

I give the above extracts to show that a most experienced director of the Bank of England in 1837 and a noble Lord in 1847, for many years of his

previous life, the most eminent merchant, perhaps, in the world, both bear testimony to the unsatisfactory state of the Bank question ; the one before and the other after the passing of the Act of 1844. Mr. Horsley Palmer attributed great mischief, and danger to the Bank of England from Joint Stock banks as then established, and Lord Ashburton conceived that the mischief was aggravated and possibly arose from the Bank Act of 1844.

Lord Ashburton, p. 27:—

"The battle between theory and practice in our treatment of these subjects will probably never end; nor will the parties, it is feared, ever permit us to profit by the wisdom, and at the same time avoid the errors of both.

"The theory is this: An adverse state of foreign exchanges, from whatever cause arising, and whether temporary or otherwise, is to be corrected by making money scarce, and thereby lowering the value of all merchandise, until by the depreciation a market is forced for it abroad. Do these reasoners comprehend the losses occasioned by this depreciation of all property, when this screw is applied to correct every occasional fluctuation of the exchanges? And, moreover, how uselessly these sacrifices are increased in cases like the present, when the difficulty to be guarded against is not real, but the result of a fanciful scale of paper and bullion, which imagines dangers while there is a larger portion of treasure in the Bank than the average of many years of supposed abundance. If our trade is to be so governed, and liable to these caprices, is it too much to say, that the advantages of a paper circulation are over-balanced by its inconveniences and dangers?"

P. 36:—

"The recommendations I have to suggest are — first, the removal of the artificial restraints on the issues and management of the Bank, which the result has sufficiently proved to be rather mischievous than effectual, and which I have endeavoured to show must of necessity have been so — and, secondly, some immediate attempt to bring within more prudent bounds the wild operations of railroad companies; — these two causes having, in concurrence with and aggravation of each other, occasioned that state of things of which, without some attempt to abate those grievances, I see no termination."

Lord Ashburton complains of the battle between theory and practice: may not both be rejected, and a new system adopted?

CHAP. XXI.

ON CREDIT.

Adam Smith, b. ii. c. 2. v. ii. p. 44.

"When a bank discounts to a merchant a real bill of exchange, drawn by a real creditor upon a real debtor, and which, as soon as it becomes due, is really paid by that debtor; it only advances to him a part of the value which he would otherwise be obliged to keep by him unemployed and in ready money for answering occasional demands. The payment of the bill, when it becomes due, replaces to the Bank the value of what it had advanced, together with the interest. The coffers of the Bank, so far as its dealings are confined to such customers, resemble a waterpond from which, though a stream is continually running out, yet another is continually running in, fully equal to that which runs out; so that, without any further care or attention, the pond keeps always equally, or very near equally full. Little or no expense can ever be necessary for replenishing the coffers of such a bank."

Let us transfer our attention from the banker who discounts the bill to the merchant whose bill is discounted, under similar circumstances. As the coffers of the Bank, so long as its dealings are "confined to such customers, resemble a waterpond," so does the floating capital of the merchant, "from which though a stream is continually running out, yet another is continually running in fully equal to that which runs out."

The merchant who discounts at the bill-broker's office good bills, which he has received in payment for goods, pays with the "value received" or cash the bills which he may have drawn, or accepted for the purchase of goods. The bills given for the

purchase, and received on the sale of commodities; the stream of bills flowing out and running in, may be compared to the stream of promissory notes running out of and flowing into the coffers of the Bank.

Adam Smith, b. ii. c. 2. v. ii. p. 26.: —

> "When the people of any particular country have such confidence in the fortune, probity, and prudence of a particular banker, as to believe that he is always ready to pay upon demand such of his promissory notes as are likely to be at any time presented to him; those notes come to have the same currency as gold and silver money, from the confidence that such money can at any time be had for them."

The same confidence in the "fortune, probity, and prudence" of a merchant gives currency to his bills payable after date; the same confidence that these bills of the merchant will be paid at maturity, as that the promissory notes of the banker will be paid on demand. The banker relies upon his bills and securities which he holds in deposit being paid, as his own bills become due; and for his payments of promissory notes on demand, he depends upon his cash, or on his ability to borrow it on the deposit of securities; that is, by discounting securities in case of any extraordinary and unforeseen demand.

The merchant in like manner depends upon his bills payable after date, which he holds, being paid at maturity to meet his own engagements, and in case of any unforeseen or extraordinary demand upon him in consequence of these bills not being paid, he borrows the money upon securities which he holds, that is, he discounts bills, or in case of need sells his goods perhaps at a sacrifice or loss.

As the merchant deals in bills payable at certain dates, or times, he has more time to provide against sudden demands than the banker, who may be called upon to pay without notice his promissory notes, or *money at call.*

Both the banker and the merchant equally hold a value for the bills of the one, and the promissory notes of the other.

The prudence of each is tested by his not depending too much upon securities, the securities and goods of the merchant, and the cash and securities of the banker.

The merchant holds commodities which he can sell in case of need to meet his expected payments — the banker holds securities which he can discount to meet his sudden and unforeseen payments. It will easily be seen how a disturbance of prices may affect the merchant, if obliged to sacrifice his commodities at a great loss, and this loss may affect the security of the bills which the banker holds, and how "fortune, probity, and prudence" are the foundation of credit in both.

The greater part of the commerce of this country is carried on upon credit, that is, upon the security of property in case of loan; and upon the security of the commodities themselves when paid for by bills payable at a future day — two or three months hence. In this case the goods purchased may be the foundation of a legitimate credit, and the bill may be an instrument of commerce for the transfer of commodities, as legitimately as bank notes or coin, *when confined within certain limits*, proportioned to the property of the drawer and the value of the goods purchased. In the evidence before the Committee of the House of Commons on commercial distress, the following answer was given by William Cotton, Esq., who was Governor of the Bank of England at the time of passing the Act of 1844.

"4,105. Is not a great portion of the trade of the country carried on upon credit?" — "It is; but credit does not increase capital, and credit is only the employment of other people's capital in carrying on business."

If a merchant sells a quantity of sugar to a wholesale grocer, taking for the cost the grocer's bill at two months' date, the grocer is enabled to trade with that sugar for two months, before he pays money or cash for the sugar, and if the wholesale grocer

sells this sugar, which may cost 3,000*l.* to retailers or shopkeepers, at a profit of 3 or 4 per cent., he realises a profit of 90*l.* or 120*l.*, which is so much addition to *his* capital. In the same way, if the shopkeeper has paid for the sugar by a note or bill at two or three months, payable at his bankers, or has a credit for the cost, of two or three months, and in the meantime has sold this sugar at 5 per cent. profit, he gains 150*l.* by the transaction, and this is an addition to *his* capital, and if he pays his bankers or the grocer the money he has received, the transaction is at an end. Here are two additions to capital on the sale of this sugar; the capital of neither the wholesale grocer nor the shopkeeper has been employed, but the industry of both has been employed for the benefit of all parties, the merchant, the wholesale grocer, and the shopkeeper, and an addition has been made to the capital of each by these profits; each is enabled to save an additional sum equivalent to the profit; and it is only by saving, or spending less than one's income or revenue, that capital can be increased.

"4,106. In what way would you say that credit does not increase capital? — I will put a case which will explain my meaning. If a manufacturer exports his goods, and gives the person to whom he exports them a certain time in which to pay for them, that is the employment of the capital of the manufacturer, for the accommodation of the party to whom they are exported. If he draws a bill, and then he renews that bill, and that bill is discounted, it is the capital of the discounter, which is employed in that transaction, and therefore I have always considered that credit does not at all increase capital. It is only the employment of one man's capital enabling another to carry on a much larger business, than his own capital could enable him to do."

The manufacturer who exports the goods, may himself have purchased them upon credit, and that credit may have been given him by a bank that borrows the money it lends from the circulation, that is, on credit, and there may be no capital in the sense of property employed in the transaction ; credit like coin, may be considered *the instrument* of commerce

and of traffic, the wheel of circulation, giving activity to labour and industry, which alone add to the stock or capital of a country.

Adam Smith (b. ii. c. 3. v. ii. p. 93.): —

"Capitals are increased by parsimony, and diminished by prodigality and misconduct.

"Whatever a person saves from his revenue he adds to his capital, and either employs it himself in maintaining an additional number of productive hands, or enables some other person to do so, by lending it to him for an interest, that is, for a share of the profits. As the capital of an individual can be increased only by what he saves from his annual revenue or his annual gains, so the capital of a society, which is the same with that of all the individuals who compose it, can be increased only in the same manner.

"Parsimony, and not industry, is the immediate cause of the increase of capital. Industry, indeed, provides the subject which parsimony accumulates. But whatever industry might acquire, if parsimony did not save and store up, the capital would never be the greater."

It is seen by this account of credit how a fall in prices directly affects credit, ruining perhaps the imprudent over trader, and injuring all traders according to the quantity of goods they hold.

Joshua Bates, Esq. (Committee of the House of Commons): —

"2,486. I know two more particularly where there was a capital of 60,000*l.*, and it did not appear that they had bought more than 120,000*l.* or 130,000*l.* of corn; they were utterly ruined from the importation being so great, in consequence of the exaggerated notion of the want there was for corn here."

Lord Bacon observes in his essay "Of Usury": —

"It is certain that the greatest part of trade is driven by young merchants upon borrowing at interest; so as if the usurer either call in or keep back his money, there will ensue presently a great stand of trade; the second is, that were it not for this easy borrowing upon interest, men's necessities would draw upon them a most sudden undoing, in that they would be forced to sell their means (be it lands or goods), far under foot, and so, whereas usury

doth but gnaw upon them, bad markets would swallow them quite up."

How careful should every state be not to allow any bank, either by monopoly, or by its great power of granting or withholding loan, to create "bad markets!"

CHAP. XXII.

ON THE DISCOVERY OF THE AMERICAN GOLD AND SILVER MINES.

THE discovery of the gold and silver mines in America reduced the value of the precious metals to about one third of their former value, and to this extent altered the standard of value. The effect of this depreciation was most pernicious to those whose property consisted in fixed money-rents, or annuities. But the effect was mitigated by the *gradual* diminution in value, and circumstances and prices *gradually* accommodated themselves to the new state of things. In ninety years, Adam Smith calculates that the full result was produced. We do not hear of panics being produced by the discovery of the American mines; but if the gold and silver had been poured into the countries at one time *suddenly*, raising the prices of all commodities to one third of their former price, then indeed a panic would have prevailed, and great ruin would have ensued. But after a time things would have accommodated themselves to the new standard of value; but if the additional supply of gold and silver could have been, after an interval of a few years, withdrawn from the world, and have been again buried in the bowels of the earth, then a new panic would have arisen from the altered state of the standard; commodities would have fallen in price one third, as they had before risen. One ounce of gold or silver would have purchased as much as three ounces before; great derangement would have ensued in all money contracts; annuitants would have

country. It is sufficient for the argument that they have the *power* of raising and depressing prices, and that governments less scrupulous, and directors less judicious, or less honest, might derange commerce, or advance their interest to the injury of the community.

Septennial commercial crises have been compared in this country to the return of Encke's comet in regularity. Will the recent discoveries of gold prevent this?

Evening Mail, Jan. 9, 1850.: —

> "A day of reaction and a day of disappointment will assuredly come. In three or four years at the most, the natural course of things will bring us round to the periodical depressions which mark our annals with almost as great certainty as the return of Encke's comet."

Mr. Haggard (Observations on the Standard of Value), p. 19.: — London 1840.

> "A certain quantity of gold, which is accumulated by importation during a period of ninety-eight months, is withdrawn in the space of eighteen months."

Ninety-eight months is about eight years, and allowing the withdrawal to proceed about one year before alarm is created in the minds of the directors, the panic would be about once in seven years.

CHAP. XXIII.

ON THE GOLD DISCOVERIES IN AMERICA, AND IN AUSTRALIA AND CALIFORNIA.

ADAM SMITH (b. i. c. 11. v. i. p. 288.):—

"The quantity of gold and silver imported at both Cadiz and Lisbon (including not only what comes under register, but what may be supposed to be smuggled) amounts, according to the best accounts, to about six millions sterling a year."

P. 299.:—

"It must be observed, however, that whatever may be the supposed annual importation of gold and silver, there must be a certain period, at which the annual consumption of those metals will be equal to that annual importation. Their consumption must increase as their mass increases, or rather in a much greater proportion. As their mass increases their value diminishes. They are more used and less cared for, and their consumption consequently increases in a greater proportion than their mass. After a certain period, therefore, the annual consumption of those metals must, in this manner, become equal to their annual importation, provided that importation is not continually increasing; which, in the present times, is not supposed to be the case."

P. 237.:—

"The lowest price at which the precious metals can be sold, or the smallest quantity of other goods for which they can be exchanged during any considerable time, is regulated by the same principles which fix the lowest ordinary price of all other goods. The stock which must commonly be employed, the food, clothes, and lodging, which must commonly be consumed in bringing them from the mine to the market, determine it. It must at least be sufficient to replace that stock with the ordinary profits."

P. 239.:—

"If new mines were discovered, as much superior to those

of Potosi as they were superior to those of Europe, the value of silver might be so much degraded, as to render even the mines of Potosi not worth the working."

P. 235. —

"When any person undertakes to work a new mine in Peru, he is universally looked upon as a man destined to bankruptcy and ruin, and is upon that account shunned and avoided by everybody. Mining, it seems, is considered there in the same light as here, as a lottery, in which the prizes do not compensate the blanks, though the greatness of some tempts many adventurers to throw away their fortunes in such unprosperous projects."

Adam Smith wrote respecting the American mines nearly 150 years after they were supposed to have produced their full effect upon the prices or value of goods; and when the trade of mining must have assumed a degree of consistency, which in some measure removed it from the uncertainty of a lottery. With respect to the silver mines, capital was employed, wages were paid, and workhouses were erected, the silver being separated from the extraneous matter by an extensive and laborious operation; in the working of a gold mine the operation was a very short and simple process, by the use of mercury; but still the lowest price would seem to command the food, clothes, and lodging of those employed, and replace the stock with the ordinary profits.

At present, the working of the gold mines in Australia, and it may be the same in California, is simply a lottery; some get much and many get nothing. The liberty of working a given spot or piece of ground is purchased by a certain payment for a licence — this constitutes the rent; the wages, and clothing, and lodging, and return for stock, consisting of a simple machinery, appear to be all centred in the same persons; if the diggings are unsuccessful no wages are paid, no labourers are clothed from those wages, no lodging is found for them, no additional rent is paid, however long the working may last; it seems to be altogether a lottery to all employed; no success, no pay; hence there is great difficulty in

determining how far the general workings may be remunerative.

The companies hitherto formed to prosecute the mining operations in Australia, have, I believe, been universally unsuccessful with respect to the gold.

The importations of gold from Australia and California have been so very considerable that they must produce, in time, very great effect, but it is difficult to state or conjecture how soon, or to what extent the change may be.

The extended commerce and the rapid communication between different countries by means of steam vessels and railways, will disperse through every portion of the civilised globe, the gold and silver, where wanted; and at the same time the abundance of the precious metals furnishes the means of carrying on the round-about foreign trade to a degree never before contemplated. Still there must be a time when the supply will be only equal to the demand, unless the supply should be continually increasing, in which case, prices of goods may continue to advance.

All these circumstances are deserving of the greatest attention from all States; and should make every government very cautious how they make the credit or trade of the country dependent upon the greater or less supply of the precious metals. This supply, affecting prices, should be free from any control; and all national banks and all banks should be independent of that supply, whether greater or less, for the fulfilment of their engagements: any system of banking depending upon that supply must be founded upon an unsafe principle.

CHAP. XXIV.

DEBATE IN THE HOUSE OF COMMONS, MAY 10, 1847, AND AUGUST 22, 1848, ON THE BANK BILL.—THE PRESENT SYSTEM CONSIDERED.—MR. VANSITTART'S RESOLUTION IN 1811.—LOCKE ON PAYMENT OF FOREIGN DEBT AND ON OBSCURE LANGUAGE.

IN the debate in the House of Commons on May 10th, 1847 *, about three years after the passing of the Bank Act, opinions were expressed by many leading members against the measure, but no remedy was suggested, except the repeal of the Act or of the clause limiting the amount of notes to be issued on securities to 14,000,000*l.* Mr. Brown, M.P. for Liverpool proposed, probably as a temporary measure of relief, withdrawing sovereigns from the circulation, and replacing them by 1*l.* notes, "putting a certain amount of them in the deposit bank, and investing the rest in Government securities."

Mr. Cardwell admitted:—

> "We need not disguise the fact. It is not agreeable to reduce prices, and let a foreigner have a thing for 180*l.* or 150*l.* or 120*l.* which is worth 200*l.* We must pay, however, for what is imported; if not in gold, we must induce the foreigner to take other articles."

Mr. Disraeli was of opinion that "The act had failed in every object which it held out as desirable to the public, and engaged to fulfil."

He alluded to a memorial presented by the bankers of London to Sir Robert Peel, dated June 11, 1844

* Parliamentary Debates: Hansard.

—the object of which was to do away with the limitation to 14,000,000*l.* of the issue of bank notes on securities; and it concluded:—

"We respectfully submit that the effect of such an absolute limitation will be to restrict the business of the country, by leading to a general withdrawal of legitimate accommodation, unless some power be reserved by the bill, for extending the issue, with the sanction of the authorities above alluded to (the First Lord of the Treasury, the Chancellor of the Exchequer, and the Master of the Mint), in cases of emergency, to be made apparent to such authorities."

Sir Robert Peel stated:—"It has been alleged on official authority that the loss of capital in consequence of the total loss of the potato crop, and the partial failure of other crops, and articles of subsistence for man, in this country, and in Ireland, has not been less than 16,000,000*l.*" He considered this loss, with the partial failure of the cotton crop, and the speculation in railways, sufficient to occasion the pressure, and for which an increase of bank notes would be no remedy.

He claimed the same privilege which he had exercised respecting the corn laws, and would propose a modification of the Act, if the interest of the country should, in his opinion, require it, but he strongly urged no modification.

He proceeded:—

"The honourable gentleman has told us what took place in 1837 and 1838—he said the country was then brought to the verge of ruin. But repeal the Act of 1844, and you will restore the state of the law as it existed at that period. It gave no security. The Bank had the power of issuing paper without reference to the exchanges; the bullion was reduced to 1,600,000*l.* in gold, and there was every prospect of the Bank not being able to fulfil its engagements. Always bear in mind, if you do consent to repeal the Act of 1844, you restore the old order of things, and have not the slightest security against the recurrence of the disorders that took place in 1838 and 1839. But the object of the Act of 1844 has been greatly misunderstood. The main object of that Act was to insure the convertibility of paper into gold, and to prevent, in times of difficulty and distress, the temptation to which it is so easy to yield, of giving accommodation, of issuing paper without reference to the exchanges, of purchasing temporary ease, and

afterwards aggravating the commercial pressure by a panic, which leads to a demand of gold in exchange for paper. It is of the utmost importance that in these periods of commercial difficulty, we should not be exposed to that other difficulty, which aggravates the first, — a demand on the Bank for gold, in consequence of doubts of its ability to pay its notes in gold."

In the debate on August 22, 1848, on the same subject, Sir R. Peel observed: —

"In all that is the subject of legislation, as in mechanism, and everything connected with human contrivance, you take precautions against the dangers and evils that may arise from ordinary causes of disturbance; but it is no argument against those precautions, that some unforeseen event may disturb all your calculations, and compel the application of extraordinary remedies. Take the case of a complicated piece of machinery: you may provide a remedy for friction, or for any derangement proceeding from ordinary causes, but sudden explosion may baffle all your precautions. Commercial panic is like sudden explosion, as little amenable to any control, as difficult to be provided for by previous contrivances of human skill. Take the case of law: the presumption is that all law ought to be strictly obeyed; but circumstances so extraordinary may occur that the violation of law may be a venial, nay, a praiseworthy act."

Sir Robert Peel in his speech, May 10th, 1847, emphatically observed: —

"Always bear in mind if you do consent to repeal the Act of 1844, you restore the old order of things, and have not the slightest security against the recurrence of the disorders that took place in 1838 and 1839."

The real object of inquiry appears to me to be, whether a better system cannot be introduced than prevailed before 1844, and since the Bank Act has been enacted: whether the monopoly and privileges of the Bank of England should be continued: whether any corporate body should have the power of lowering prices; whether commerce with its complicated interests should not be free from any control over its profits: whether the banks are not competent to manage their own business, with reference to their own customers, and funds and resources, without the control of any national bank: whether every individual banker and merchant should not manage his

own business, upon his own responsibility: whether Joint Stock Banks and private banks, both responsible for the payment of their promissory notes, are more likely to make improvident loans, than a National Bank exercising a controlling power over the currency: whether a corporate body consisting of proprietors of bank stock, and whose interests may be opposed to that of the Great Mercantile Republic, is more proper to hold that bullion, which is the most convenient commodity for foreign commerce, under certain circumstances, than the merchants who may employ it at their discretion, and according to the wants of commerce: whether ownership should be separated from possession, and the Bank of England, as trustees, should have the custody of the bullion, and employ it, in case of need, agreeably to their wants, real or supposed; or whether the proprietors of the bullion should not themselves keep it, and employ it, as their property, according to the wants of the particular trade of each, agreeably to their interests.

Credit and money are both instruments of commerce in the exchange of commodities: to reduce prices by a shock to credit generally, is as pernicious to the holder of commodities, as far as the prices are reduced by that shock, as to tamper with the coin. When the French kings raised a revenue by debasing the coin, by ordering the coin of a certain denomination to be called in, and issuing a coin of the same denomination in return, but of lighter weight, or of less purity, they pleaded the necessity of doing so in the urgency of their wants. They did not attempt to reconcile their indignant subjects, by alleging that it was consistent and proper, upon scientific principles; they did not talk of monetary science. We must discard this delusion of monetary science when applied to the performance of a promise, to the payment of the pound or sovereign according to promise. We must not treat of the engagement to pay

sovereigns or deliver bullion on demand, as if we were discoursing upon some nice and mysterious question of chemistry or experimental philosophy. It is a plain question of morality.

Who would attempt to discuss the obligations of the Decalogue upon *scientific* principles? and how can we determine the obligation of a promise according to *scientific* truth?

When Mr. Vansittart, in 1811, proposed his notable resolution, which was adopted by the House of Commons, that the value of bank notes was not depreciated, but that the value of gold was enhanced, he advanced two fallacies, by mixing together the promise and the pound. The pound was always the same in weight of pure gold, twenty of twenty-one parts of a guinea. This had nothing to do with the promise; the promise was depreciated by a want of performance: the Bank note was not paid on demand, as promised. It was, by Act of Parliament, made conditional upon the termination of the war. It was the promise that was depreciated, and nothing else was changed: restore the promise to its integrity, and the Bank notes resume their former value: the promise might be depreciated to any extent; but no depreciation of the promise would affect the pound.

The contractor for the delivery of certain goods fulfils his contract by the delivery, however the goods may vary in value: it is of vast importance to keep constantly in view, that where there is a promise, there is no room for *monetary science* or *scientific truth.*

The histories of the French coinage, by Le Blanc and by Bazinghen, to which I have alluded, p. 22., afford an instructive lesson on the vanity of endeavouring to establish a double standard, by constituting both gold and silver coin as measures of value in the exchange of commodities.

It appears to me that a similar attempt is now made to equalise the value of bank notes and coin. The French economists contended for a double stand-

ard, notwithstanding the constant efflux of that coin which was more valuable as merchandise, and which found a better market abroad than in its exchange with the legal tender coin, whether gold or silver. The error now appears to me to be of the same character, to make both bank notes and coin a measure of value, to consider both as having intrinsic value, the value of both to be determined by the same principle of supply and demand; that bank notes are to be made equivalent to coin by scarcity or a limited supply.

Locke observed, v. ii. p. 10.:—

"We importing every year one hundred thousand pounds worth of commodities more than we export, and there being no foreigners that will give us one hundred thousand pounds every year for nothing, it is unavoidable that one hundred thousand pounds of our money must go out every year to pay for that overplus, which our commodities do not pay for. 'Tis ridiculous to say that bills of exchange shall pay our debts abroad; that cannot be, till scrips of paper can be made current coin."

However "ridiculous" this might appear to the philosopher, is not this really accomplished by the provisions of the Bank Act, and by the monopoly and great power of the Bank of England? Are not "scrips of paper," in the form of promissory notes, "made current coin" to pay our debts abroad: not by the simple act of performing the promise, and paying the coin, but by pressure upon commerce, by contraction, or the screw, reducing the prices of commodities? Foreigners are not required to give us the "one hundred thousand pounds for nothing," but the manufacturer and holder of produce are to furnish the goods to pay this sum, at prices that will remunerate the foreigner, and be more valuable to him than the coin. If we reject entirely the notion of equivalency between bank notes and coin as a measure of value, the notes deriving their value solely from the promise, which may be worth something or nothing, according as the promise is performed or not, I think we shall take a more just view of the case. Bank

notes are not merchandise, seeking and finding, like the ancillary coins, in their exchanges with the legal tender coin, the most profitable investment. The bank note, as merchandise, has no value whatever; it has no intrinsic value, any more than the parchment which conveys away the property of an estate has intrinsic value; it is simply the undertaking to pay money, and is not money, and the engagement rests for its value upon the character of the person who makes the promise, and upon his ability to perform it.

By introducing a new nomenclature as "equivalency" and "equilibrium," we perplex ourselves with these novel expressions; and do we not confound all notions of right, when pressure, contraction, and the screw are applied, not to enforce the performance of the promise, but to exact forbearance in the party who demands it?

Far be it from me to impute unworthy motives to any one, but I think the following paragraph from Locke is deserving of attention.

P. 50.: —

"This business of money and coinage is by some men, and amongst them some very ingenious persons, thought a great mystery, and very hard to be understood. Not that truly in itself it is so, but because interested people that treat of it, wrap up the secret they make advantage of in a mystical, obscure, and unintelligible way of talking; which men, from a preconceived opinion of the difficulty of the subject, taking for sense, in a matter not easy to be penetrated but by the men of art, let pass for current without examination. Whereas, would they look into those discourses, inquire what meaning their words have, they would find for the most part, either their positions to be false, their deductions to be wrong, or (which often happens) their words to have no distinct meaning at all. Where none of these be, there their plain, true, honest sense would prove very easy and intelligible, if expressed in ordinary and direct language."

CHAP. XXV.

OBSERVATIONS ON SOME OPINIONS OF SIR ROBERT PEEL, SIR CHARLES WOOD, COLONEL TORRENS, MR. THOMAS BARING, SIR ARCHIBALD ALISON, MR. WEGUELIN, AND LORD OVERSTONE.

Sir Robert Peel.

P. 7.:—

"We cannot hope to agree on the measure to be adopted with regard to paper currency, unless we are agreed on the principles which determine the value of that of which paper is the representative, and on the nature of the obligation which is imposed upon the issuer of promissory notes. Now I fear there is not a general agreement on those fundamental principles—that there is still a very material difference of opinion as to the real nature and character of the measure of value in this country.

"My first question, therefore, is, what constitutes this measure of value? What is the signification of that word 'a pound,' with which we are all familiar? What is the engagement to pay a pound? Unless we are agreed on the answer to these questions, it is in vain we attempt to legislate on the subject. If 'a pound' is a mere visionary abstraction, a something which does not exist either in law or in practice, in that case one class of measures relating to paper currency may be adopted, but if the word 'pound,' the common denomination of value, signifies something more than a mere fiction—if 'a pound' means a quantity of the precious metals of certain weight and certain fineness—if that be the definition of 'a pound,' in that case another class of measures relating to paper currency will be requisite. Now, the whole foundation," &c. (See ante, p. 138.)

When Adam Smith wrote his "Wealth of Nations," the pound consisted of twenty twenty-one parts of the guinea, and the twenty silver shillings which were called a pound, were not intrinsically worth the pound. We had no coin denominated a pound; this occasioned ambiguity, not only as respected the exact nature of the pound, but also as to the standard of value, whether

the pound was a silver pound or a gold pound, and whether we had a gold or a silver standard. Adam Smith reasoned as if we had a silver standard when he wrote, which I have shown, I think, to be erroneous: but since the coinage of *sovereigns*, the money of account and the legal tender coin, the standard of value, have been the same — the pound of account and the current pound or sovereign have been the same. But Sir Robert Peel's definition is not complete, as that "definite quantity of gold" must also be declared by the state to be a legal tender in the payment of debt to any amount, to constitute the "pound" as the standard of value. It would appear a more simple statement to say that the "pound" means a "sovereign," and the promise to pay a "pound" means the promise to pay a "sovereign." One cannot fancy any disagreement as to the nature of the "pound," or the "promise," when so stated.

Is not the reasoning of Sir Robert Peel more applicable to the *promise* than to the *pound?*

> "If the 'promise' is a mere visionary abstraction, a something which does not exist either in law or in practice, in that case one class of measures relating to paper currency may be adopted; but if the promise to pay a pound means nothing and can mean nothing else than the engagement to pay to the holder when he demands it, a 'sovereign,' in that case another class of measures relating to paper currency will be requisite."

The promise appears to me to be involved in more mystery than the pound; and that mystery consists in a departure from the simplicity and responsibility of performance which govern other promises. An attempt is made to establish the promise upon a basis "which does not exist in law or in practice" with regard to other engagements; it is not made to rest, when applied to the paper currency, upon the obligation of *performance* from the resources and at the cost of the person who promises, subject to the penalties incurred by others for the non-payment of debt, or the non-fulfilment of engagements. New words are employed to express the new "class of measures" to be adopted: instead of "payment" of debt, and "performance" of "promise," when applied to

the paper currency, resting upon the basis of moral obligation enforced by law, upon justice and truth; we have the words "equivalency" and "equilibrium," enforced by "pressure," sustained by "monopoly."

It will be for the public to determine whether by the Bank Act of 1844, and the arguments urged in its support, the "promise" is not treated as "a visionary abstraction," as "a mere fiction;" and whether "the class of measures" relating to the paper currency, and supposed to be requisite, are upon the present system based upon the *moral* obligation to perform the promise.

Adam Smith, p. 122., ante:—

"If I owe a man ten pounds, justice requires that I should precisely pay him ten pounds, either at the time agreed upon, or when he demands it."

The promise to pay ten pounds expressed in the promissory note is a debt from the banker to the holder of the note, and justice requires that it should be paid on demand. How simple are the words, "debt and payment," "promise and performance;" justice requires the payment of the debt, and truth requires the performance of the promise; how simple are the elements of the promissory note when based upon moral obligation!

Sir Robert Peel states (p. 26.), that in the opinion of some, the true principles which should govern the issue of promissory notes are "freedom of competition, and immediate convertibility into coin at the will of the holder," and that "in support of that opinion they have undoubtedly the high authority of Adam Smith and of Ricardo." It may be very proper to give at length the opinion of Adam Smith, as expressed in b. ii. c. 3. v. ii. p. 82.:—

"If bankers are restrained from issuing any circulating bank notes, or notes payable to the bearer, for less than a certain sum; and if they are subjected to the obligation of an immediate and unconditional payment of such bank notes as soon as presented; their trade may, with safety to the public, be rendered in all other respects perfectly free. The late multiplication of banking companies in both parts of the United Kingdom, an event by which many people have been much alarmed, instead of diminishing, increases the security of the public. It obliges all of them to be

more circumspect in their conduct, and, by not extending their currency beyond its due proportion to their cash, to guard themselves against those malicious runs, which the rivalship of so many competitors is always ready to bring upon them. It restrains the circulation of each particular company within a narrower circle, and reduces their circulating notes to a smaller number. By dividing the whole circulation into a greater number of parts, the failure of any one company, an accident which, in the course of things, must sometimes happen, becomes of less consequence to the public. This free competition too, obliges all bankers to be more liberal in their dealings with their customers, lest their rivals should carry them away. In general, if any branch of trade, or any division of labour, be advantageous to the public, the freer and more general the competition, it will always be the more so."

I think a distinction is to be drawn between "immediate convertibility into coin," the words as quoted by Sir Robert Peel, and "immediate and unconditional payment," the words of Adam Smith. "Convertibility" implies rather the ability to pay, than actual payment; and the modern theory, and the system of the Bank Act of 1844, appear to recognise this distinction: the payment is not to take place, and the bank restriction is not upon the *payment*, but upon the *demand*. For legislative enactment is substituted the seductive influence of low prices; for a demand of payment in coin or bullion is to be substituted a demand for manufactures and produce for exportation, at remunerating prices to the exporter, at the cost of the manufacturer and producer.

There is no hardship in the performance of a promise, or in the fulfilment of an engagement; no banker or board of directors is under any restraint to promise more than can be performed, or to undertake more than can be accomplished.

As the great question is whether competition or monopoly should prevail, the preceding extract from Adam Smith is given, that his opinion on the subject may be clearly understood.

Sir Robert Peel, December 3rd, 1847 *, debate on the currency:—

"Some eighty years ago, the greatest writer that ever treated

* Hansard.

upon the subject of political economy—the author, who stands in the same relation of pre-eminence to all those who have subsequently written upon that subject, in which Sir Isaac Newton stands to his followers in the sublimer science of astronomy, made the following observations:"—

Adam Smith (b. iv. c. 1. v. ii. p. 216.):—

"No complaint, however, is more common than that of a scarcity of money. Money, like wine, must always be scarce with those who have neither wherewithal to buy it, nor credit to borrow it. Those who have either, will seldom be in want either of the money or of the wine which they have occasion for. This complaint, however, of the scarcity of money is not always confined to improvident spendthrifts. It is sometimes general through a whole mercantile town, and the country in its neighbourhood. Over-trading is the common cause of it. Sober men, whose projects have been disproportioned to their capitals, are as likely to have neither wherewithal to buy money, nor credit to borrow it, as prodigals whose expense has been disproportioned to their revenue. Before their projects can be brought to bear, their stock is gone and their credit with it. They run about everywhere to borrow money, and every body tells them that they have none to lend."

"That," says Sir Robert Peel, "is the precise condition in which we are at present," &c.

Can it be said that the Bank of England is exempt from this complaint? It borrows the gold, for which it gives either bank notes payable to bearer on demand, or an engagement by a bank credit, to deliver it when required. As long as it can borrow gold from the community, it has the power to lend it; when it lends or engages to deliver more than it can borrow, it may be said to be over-trading or over-lending: without its reserve of bank-notes in the banking department, it can procure no gold from the issue department; its resource in that respect is exhausted, and it possesses no commodities. Will it be said that the Bank of England has discovered the means of making the Great Mercantile Republic, and the trading community provide it with gold, at the expense of their credit and profits, by substituting for money, or gold and silver, their merchandise and manufactures for exportation at reduced prices, by means of pressure, pressure by law, and the screw? Little did Adam Smith dream of any National Bank replenishing its coffers by such means.

Is it not most desirable to liberate the Great Mercantile Republic and commerce from a dependence upon any National Bank, which is liable to such a want of money or bullion, and which can exercise such control over the credit of the country?

Sir Charles Wood (Charles Wood, Esq.), speech, May 10th, 1844.*

P. 63.: —

"These objects, however, great and important as they are, are but secondary to what is the principal object of our proposed legislation. That object I understand to be the inviolable maintenance of the standard of value in this country. By that I mean the preservation of the constant identity of value of the pound in paper and of the sovereign, with that of the quantity of standard gold, which by law constitutes the pound sterling. That this identity may be affected by an excessive issue of paper is not denied. The experience of this country, and still more, that of the United States of America, abundantly proves that the convertibility, at the will of the holder, is no security against excessive issues, or ultimate suspension of cash payments. It is not enough, then, to enact that the bank notes shall be convertible. The paper circulation must not only be convertible, but must vary in amount from time to time, as a metallic circulation would vary. A system, therefore, of paper circulation is required which will attain this object, and ensure a constant and steady regulation of the issues on this principle. This, and this alone, affords a permanent security for the practical convertibility of the notes at all times, and for the consequent maintenance of the standard."

"It is because the measure of the Right Hon. Gentleman is based on this principle, and, as far as it goes, carries this principle into execution, that I feel it to be my duty to give it my cordial support."

It is certainly "not enough to *enact* that the bank notes shall be *convertible;*" it should be enacted that the bank notes shall be *converted* or *actually paid* to the bearer on demand; the payment may be secured by any guarantee the state may think proper to exact, and also be enforced by the penalty of bankruptcy, in cases of non-payment, like other debts. The "in-

* Speech of Charles Wood, Esq., London, 1844.

violable maintenance of the standard of value in this country" depends upon the "sovereign containing the quantity of standard gold which by law constitutes the pound sterling," or the sovereign. The sovereign in circulation cannot vary in value from the sovereign in the Mint, *the standard gold coin*, if both are of equal weight and fineness. The pound in paper or bank note may vary in value to any extent, as the bank note may not be paid at all; but the standard would not be endangered by the failure of any or of all the banking establishments in the kingdom; that standard depends solely upon the weight and fineness of the legal tender coin, the sovereign, being preserved.

How can a paper circulation be *made* to "vary in amount from time to time, as a metallic circulation would vary?"

The metallic circulation has intrinsic value, and the world for its market; the paper circulation has no intrinsic value, and no market; a field for circulation is not a market for purchase and sale, the promise and the market are quite different things, and moral obligation must not be confounded with material value.

It is truly said, p. 18.:—

"With a metallic currency, or, indeed, with any currency possessing intrinsic value, that object is attained by the self-interest of the community, which no law and no discretion can accomplish; namely, the precise quantity of money required for the wants of the community, is practically and at all times determined. If the increasing demands of commerce require a larger amount of circulating medium, it is for the interest of the community to divert a larger quantity of their capital for this purpose, and to procure the bullion from the supply in the market; if, on the contrary, the state of trade is such as to require less, a portion of the coin is withdrawn, and applied as any other commodity for the purposes of commerce."

Is it not equally true that the "self-interest of the community" will determine "practically and at all times the precise quantity" of bank notes "required for the wants of the community," provided the stan-

dard of the value of the bank note be preserved, namely, "the obligation of an immediate and unconditional payment of such bank notes as soon as presented," in the words of Adam Smith?

Is the amount of bank notes "required for the wants of the community" to be determined by law, and the discretion of the directors of the Bank of England, which it is admitted "no law and no discretion can accomplish" with respect to coin?

While the standard of the coin is preserved, the due weight and fineness of the gold sovereign, and the integrity of the promise of the bank note, may not the amount of both be safely left to be determined by the self-interest of the community? Is it not true that the interest of individuals, and the rivalry of competing banks, will better determine the amount than law, or the discretion of the Directors of a National Bank?

What is the meaning of "practical convertibility?" Is convertibility payment? and can any payment be otherwise than practical?

In the books of Adam Smith which treat of banks and banking, we never meet with the words "convertibility," "equivalency," "equilibrium," or "pressure," as having any relation to the payment of bank notes; nor "monetary science," or "scientific truth," as having any relation to the circulation of bank notes.

We are warned by an eloquent writer,

"To remount in the survey of our opinions to the first, and even remotest principles on which they are founded.—If we find these principles false, and that will be the case in many instances, we stop our inquiries on these heads at once, and save an immense deal of time that we should otherwise misspend.

"To discover error in axioms, or in first principles grounded on facts, is like the breaking of a charm;—and the paths that lead to truth, which we imagined to be so long, so embarrassed, and so difficult, show, as they are, short, open, and easy."—Bolingbroke: "Essay on Retirement and Study," pp. 424. 426.

Mr. Thomas Baring in the debate of May 10th, 1847*, observed:—

"The commerce of this country was carried on upon a system of credit; and if they brought it to a ready money system, they paralysed trade in the manufacturing districts.

"When they made the interest of money 3 per cent. in August, and 13 per cent. in April, they made trade the greatest lottery in the world.

The country had exported, say 7,000,000*l.* in gold, and the property of the country had been depreciated 100,000,000*l.* in value."

Mr. Cardwell, who advocated the Act of 1844, observed*:—

"We need not disguise the fact. It is not agreeable to reduce prices, and let a foreigner have a thing for 180*l.* or 150*l.* or 120*l.* which is worth 200*l.* We must pay, however, for what is imported; if not in gold, we must induce the foreigner to take other articles. How does your currency law apply to this. There are (35,000,000*l.*?) sovereigns and bullion in the Bank of England. If we reduce the circulating medium of the country, every sovereign abstracted from the circulating medium will tend to raise the price of money, and depress the price of commodities; it tends to produce the exportability of other things, and to prevent gold from going out."

This reasoning is very much in accordance with the theory of the monetary system; that the commerce of the country should be considered as the action of the country, and that the country should therefore be responsible for the consequences.

Mr. T. Baring says the *country* had exported, say 7,000,000*l.* of gold, instead of which it should be said, certain individuals had exported 7,000,000*l.* of gold, and these individuals should be responsible each for his own act; those merchants or manufacturers, who had exported the bullion should pay the price of this bullion in the way that best suited them. Certainly the property of the *country*, the property of the tradesman, of the landholder, of the manufacturer, of the merchant, of the labourer and of the agriculturist, who had nothing to do with the export of the bullion,

* Parliamentary Debates, Hansard.

or with the trade or commerce of those who wanted it, should not suffer in a general depreciation of property to the extent of one hundred millions.

Mr. Cardwell says, *we* must pay for what is imported, if not in gold, in articles at reduced prices. It may be asked, Who are *we?* Not the owners of property through the country; they are not to sell their goods which are worth 200*l.* for 180*l*, or 150*l*, or 120*l.*, because some manufacturers and merchants have overtraded; these and these only should bear the loss. Why should the property of others be lowered in value, on account of their imprudence?

Colonel Torrens.*

P. 126.:—

"Mr. Ricardo's proposition, which Mr. Fullarton has so strangely inverted, appears self-evident as soon as correctly stated. When a given sum in the precious metals, or in a currency convertible into the precious metals, will not purchase in the English market the quantity of commodities which can be sold for the same sum in the foreign market, it becomes the interest of the English merchant to make his foreign payments in gold; and when a given amount of gold will purchase in the English market commodities which can be sold for a greater quantity in the foreign market, it will become the interest of the merchant to make his payment not in gold, but in commodities; while, if the quantity of gold which British goods can be sold for in the foreign market cannot purchase in that market goods which can be sold for a greater quantity of gold in the home market, it will be the interest of the British merchant to bring back his return in gold. There can be no exportation of gold unless the value of gold in the home market, as measured by commodities, should have previously fallen below the value of gold in the foreign market, measured in the same commodities; and no importation of gold, unless its value in the home market, as measured in commodities, should have previously risen above the value of gold, as measured by the same commodities in the foreign market."

There can be no doubt that when commodities cannot be exported or imported except with a pros-

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* The principles and practical operation of Sir Robert Peel's Bill explained and defended, by R. Torrens, Esq., F.R.S., London, 1848.

pect of loss, gold or bills will supply their place. The proposition in the last sentence I conceive to be erroneous, and I would state it thus: —

"There can be no exportation of gold unless the value of *commodities* in the home market, as measured by *gold*, should have previously fallen below the value of commodities in the foreign market, measured by the same gold; and no importation of gold unless the value of *commodities* in the home market, as measured by *gold*, should have previously fallen below the value of commodities, as measured by the same gold, in the foreign market."

The profit or loss is on the commodities and not on the silver or gold. The difference in value on commodities may be considerable; the difference in value on gold would be inconsiderable, and measured by the expense of transport.

William Ward, Esq., a bank director (evidence p. 26. 1832), p. 1928.: —

"Gold can now be conveyed from Paris to London at 4*s*. per 100*l*."

N. M. Rothschild, Esq. (evidence 1832, p. 101.), p. 4804.: —

"At Amsterdam, Hamburgh, and Paris, gold levels itself within a quarter per cent.; if it rises at one of them the others follow immediately."

Adam Smith, as quoted p. 176. ante, has observed that when gold and silver "are sent abroad in order to purchase foreign commodities, the merchant's profit arises not from the purchase but from the sale of the returns."

P. 128.:—

"Now gold in coin must be of the same value as gold demanded for exportation; and gold, as has been already shown, cannot be demanded as a commodity for exportation, unless its value in relation to other exportable commodities be less in the home than in the foreign market, or, in other words, unless the currency, which is immediately convertible into gold, be depreciated in relation to foreign currencies."

"Gold is demanded for exportation in conformity to the law of equilibrium, by which the precious metals are distributed throughout the world; but it cannot be exported unless it be of less value in the exporting than in the importing country, and unless the currency convertible into gold be less valuable than foreign cur-

rencies. Again, gold will continue to be exported until the diminution in its quantity renders its value in the home market equal to the value in the foreign market; and, consequently, a note circulation convertible into gold must contract, under a drain of bullion, until its value becomes equal to that of foreign currencies. It is the movements of the bullion, therefore, which govern the amount of a convertible currency."

I would say, gold will not be demanded for exportation, unless other exportable commodities be dearer in the home than in the foreign market, or while other exportable commodities leave a profit in the foreign market; the exportation of gold is determined by the law of *profit*, by which commodities are distributed throughout the world; it is the *price of commodities* abroad compared with the price of commodities *at home* which governs the movements of the bullion exported, quite independently of all paper circulation in either country.

Sir Archibald Alison, in his "History of Europe,"* enters largely into the question of the currency, and he determines the "pound" to be "an abstract measure of value, just as a foot or a yard is of length, and different things, have at different times, been taken to denote that measure, according as the conveniency of men suggested" (vol. ii. p. 384.); and "in truth, different things, at different times, are taken to express the much coveted abstract standard; and what is always taken is that article in general circulation which is most steady in value, and most generally received."

An article or merchandise "steady in value and generally received," is not an *abstract* but a *concrete* measure of value, nor is a foot or a yard an *abstract* measure of length, but a *tangible* and *determinate* measure. The historian should consider that the "pound" or sovereign differs from the yard or foot in this respect, that the standard of value must be an *equiva-*

* History of Europe, by Sir Archibald Alison, Bart., D. C. L.

lent, as well as a measure; the yard or foot is simply a *measure*.

He thinks that Sir Robert Peel would have modified his opinion that the pound was a determinate weight of gold metal, if "he had seen the ounce of gold selling in Australia at 3*l.* to 3*l.* 10*s.*, instead of 3*l.* 17*s.* 10½*d.* the mint price;" he thinks this "a decisive proof that gold is measured by silver and not silver by gold."

Sir Robert Peel was speaking of the standard in Great Britain, and not of the standard in Australia; and a standard of silver, if it prevailed there, would not be an *abstract* measure of value, but a determinate quantity of silver of a certain weight and fineness.

He observes (vol. ii. p. 384.), "During the war when the metallic currency disappeared, the pound was a Bank of England note: the standard was thus paper; for gold was worth 28*s.* the pound from the demand for it on the continent." During the Bank restriction the value of the bank note was determined by the goods, whether gold or other merchandise, that the pound would buy, and also on a calculation of the probable time when the restriction would be removed, and the performance of the promise enforced.

Vol. ii. p. 390.:—

"Proceeding on the principle that the great object is to equalise the currency, and with it prices and speculation, it would *enlarge* the paper currency when the precious metals are withdrawn, and credit is threatened with stoppage, and proportionally *contract* it when the precious metals return, and the currency is becoming adequate without any considerable addition to the paper. In this way, not only would the immense danger of the gold and paper being poured into the circulation at the same time be avoided, but a support would be given to credit, and an adequate supply of currency provided for the country, when its precious metals were drained away, and a monetary crisis is at hand. A few millions secured on government credit, not convertible into cash, judiciously issued by government commissioners, when the exchanges are becoming unfavourable, and money scarce, would at any time arrest the progress of the most dreadful monetary crisis that ever set in upon the country. That of 1793 was stopped by an issue of exchequer bills; that of 1797 by suspending cash payments;

that of 1825 was arrested, as will appear in the sequel, by the accidental discovery and issue of two millions of *old bank notes* in the Bank of England, when their treasure was all but exhausted; that of 1847 was at once stopped by a mere letter of the Premier and Chancellor of the Exchequer, authorising the suspension of cash payments. The *prospect* even of a currency which was to be a substitute for gold, not a representative of it, at once arrested the panic, and saved the nation. Such an expedient when intrusted to government commissioners, and not to bankers or interested parties, is comparatively safe from abuse; and it would at once put an end to that fluctuation of prices and commercial crises, which have been the constant bane of the country for the last thirty years."

The author makes a distinction between bank notes being the *substitute*, and bank notes being the *representative* of gold and silver. When gold and silver are exchanged for bank notes at the Bank of England, they are supposed to be the representative and not the substitute for gold, and that the amount of circulation is increased in proportion to the gold received, and the notes issued for it, that *both* increase the amount of circulation.

This appears to me erroneous; if coin be not wanted in the home circulation, the gold will remain as a deposit, as far as the circulation is concerned: if the bank notes be not wanted in the circulation, they will be returned to the bank by those to whom they are paid in the purchase of commodities.

We need be under no alarm about the expansion or contraction of the circulation, as long as the integrity of the promise is preserved; the wants of the community will determine the quantity. We need not invest Government Commissioners with the useless and dangerous power of regulating its quantity, according to their opinion of the wants of commerce. It is to be observed that the gold and silver are considered as having relation only to the *domestic circulation;* no notice is taken of the international bullion for the purposes of international commerce, and Government Commissioners are, by a sagacity superior to the knowledge and experience of merchants and traders, to rule the commerce of nations, "putting an end to that fluctuation of prices, and commercial

crises, which have been the constant bane of the country for the last thirty years."

With respect to the Bank of England (Vol. ii. p. 382.) "being obliged to take the gold at a fixed price, often above the market value," this is a complete fallacy, as the gold in England being the standard of value can have *no price*.

I recommend to the attention of those who are advocates for an issue of paper currency, "either by corporate bodies, under the authority and protection of government, or directly by the government itself," the following extract from "Lord Liverpool's Treatise."

P. 227.:—

"It is true there have been a few memorable instances, I believe but three, in which, under the authority of government, paper currency has been issued to an extravagant extent, in a neighbouring country. The first was while France was governed by a Regency, in the beginning of the last century; the two others are of a later date; and each of these experiments has proved, in its results, dishonourable to the government, and disastrous to the people. During the emission of this paper currency, the coins of that country were in a very great degree driven out of circulation; but they re-appeared in considerable quantities as soon as this paper currency was discredited and annihilated. It ought always to be kept in remembrance, that this paper currency was issued to so great an excess, either by corporate bodies, under the authority and protection of government, or directly by the government itself, and not on the sole credit and responsibility of unauthorised individuals."

Where shall we seek for a precedent to authorise or recommend the issue of inconvertible paper money, whether bank notes payable to bearer on demand, or government paper under the same stipulation in words, but neither of them paid according to promise?

Shall we find it in the currency of the North American colonies, although a legal tender, when we are informed by Adam Smith (b. ii. c. 2. v. ii. p. 79.), that "a hundred pounds sterling was occasionally considered as equivalent, in some of the colonies, to a hundred and thirty pounds, and in others to so great a sum as eleven hundred pounds currency; this difference in the value arising from the difference in the quantity of paper emitted in the different colonies,

and in the distance and probability of the term of its final discharge and redemption?"

Shall we find it in the paper currency of America during the revolutionary war, when, from nine millions of dollars, the issue was increased till it amounted to 200 millions of dollars, and sunk in value to nothing? *

Shall we find it in the issue of the French assignats, which gradually fell in value to comparatively nothing?

Shall we find it in the instance of the Russian paper currency, which fell to a discount of 400 per cent?

Shall we find it in the promissory notes of the Bank of England which were at one time at a discount of 30 per cent., and remained unpaid in specie during a quarter of a century?

Have we not seen in this country the miserable effects of a departure from truth, in the suspension of cash payments, the losses attending the return to cash payments, the endless debates, the unsatisfactory conclusion?

Has not this country at length embraced a system which involves an evasion, rather than the performance of the promise?

Are these facts to be forgotten, to pass over us like "a summer cloud?" Should they not be a beacon to warn the nations against the danger of adopting *under any circumstances*, an inconvertible currency, from the great temptation, the apparently irresistible temptation, of abusing the power of issue, and from the incalculable mischief attending the return to the path of duty, to the performance of the promise?

How easy to yield to the temptation! how difficult to retrace one's steps!

Facilis descensus Averni;
Sed revocare gradum, superasque evadere ad auras,
Hoc opus, hic labor est.

* "Considerations on the currency and banking system of the United States, by Albert Gallatin. Philadelphia" (quoted by Gilbarti, in his History of Banking in America, p. 3.).

THOMAS MATTHIAS WEGUELIN, Esq., M.P.

Sir Robert Peel observed on introducing his bill (p. 7.), " We cannot hope to agree on the measure to be adopted with regard to paper currency, unless we are agreed on the principles which determine the value of that of which paper is the representative, and on the nature of the obligation which is imposed upon the issuer of promissory notes."

I would also say, that "we cannot hope to agree on the measure to be adopted," unless we are agreed upon the nature of the obligation of those who hold the bullion of the Great Mercantile Republic; unless we are agreed upon the nature of this obligation, "it is in vain to attempt to legislate on the subject." I have endeavoured to show the nature of this obligation, which is quite distinct from the obligation of the promise, "to pay to the holder of the *promissory notes*, when he demands it, a definite quantity of gold."

This bullion is quite distinct from the coin which circulates as money in any particular country. This bullion is demanded and required, not for the domestic circulation, but for exportation, and is imported, under certain circumstances of commerce, as the most convenient commodity, and as such, circulates among nations.

It is this bullion which embarrasses the Bank of England, and the banking system generally.

I would separate entirely this bullion from the custody of the Bank of England, and of all other *banks*.

If the Bank of England and national banks of circulation are to keep this international money, this most convenient commodity, "in that case one class of measures relating to paper currency may be adopted;" but if the members of the Great Mercantile Republic are to be the guardians of this most convenient commodity; if there be established an international treasury, as well as a national bank, and other banks of circulation, "in that case another class

of measures relating to paper currency will be requisite."

May it not be said, that "the whole foundation" of the theory of paper money rests upon this distinction?

In the examination before the committee lately sitting on the "Bank Acts," T. M. Weguelin, Esq., the Governor of the Bank of England, gave this evidence, May 19th, 1857.:—

With respect to the changes in the rate of discount, the Governor is asked —

438. "Do you look exclusively to the reserve, or are there other considerations that enter into the question?—The previous answer shows that the reserve is affected by the demand for bullion, which governs the action of the bank."

439. "And no other consideration. You say 'The consideration which has chiefly induced us to make those changes, has been the demand for bullion.' Is that the only consideration? — What governs our action is the state of the reserve, and the mode by which the reserve is affected."

440. "Then your second answer is accurate, that you look exclusively to the reserve? — The reserve is only affected by the demand for bullion, and therefore the two answers are consistent; there is no opposition between them."

517. "Without going to extremes, is it not the interest of the public to have, if possible, a moderate rate charged to them for money? If a system could be devised by which the commercial public could be supplied with money at a moderate rate of interest, would it not be more advantageous to it than the present system? — That is the whole question, 'if a system could be devised.' If a system could be devised by which every man who wanted to borrow could borrow cheaply, that no doubt would be a desirable system."

With reference to the bills brought to you for discount: —

555. "Your primary considerations are the solvency of the parties, and the state of your bullion, and of your reserve?—Those are the only considerations that affect our action."

607. "Then you would not represent to the committee that you can immediately meet a demand for bullion by any action whatever upon the exchanges; it must be met by a long and delayed process, must it not? — No doubt it would take some time; but I wish to point out, that the power of the Bank to act upon the exchanges is very small. It must be the trade of the country which

must influence the exchanges. All that the Bank in such a case can do, is to defend its own position; and holding the reserves of the country at that moment, no doubt, its position becomes a matter of very considerable interest and importance; but it can only do that. The trade of the country must right itself."

608. "But you do not conceive that the trade of the country can immediately furnish the Bank with the means of meeting a rapid and unforeseen drain of gold occurring upon a contingency like the failure of the harvest?—I think we have evidence that the trade of the country is enabled to do that."

It is admitted that the reserve is only affected by the demand for bullion. The "system" which I submit of separating the bullion from the national circulation has no reference to any plan "by which every man who wanted to borrow could borrow cheaply;" that is to be arranged by the borrower and lender: the measures to be adopted to carry on this "system" are matters of detail; but the principle is that the power of the Bank of England over the currency and over prices should be abandoned. The repeal of Sir Robert Peel's bill would not accomplish that. I submit, that the Bank of England should not have this power either by Act of Parliament or by its magnitude; that competition of issue should take the place of monopoly, and that the Great Mercantile Republic should possess and keep their own bullion; not collectively, but individually, or as separate commercial establishments; as a bank of deposit, neither discounting, nor borrowing, nor lending, as described in the account of the Bank of Amsterdam.

The Right Honourable Lord Overstone gave his evidence at considerable length before the same Committee, sitting during the last session; 7th July, 1857.

His Lordship approves of the Bank Act of 1844, observing:—

3645. "The Committee have now before them, what may fairly be called the unanimous declaration of the whole body of the bank directors, that they think that that Act has worked beneficially, that it is sound in principle, and that it ought to be renewed; an opinion in which I entirely concur."

The object of the Act and its mode of operation are thus described:—

3785. "I have already stated, that the object of the Act of 1844 being to make the paper money of the country sustain a diminution, both in amount and in period, precisely the same as would be sustained by the metallic money of the country, of course an increase in the value of money arises the moment the money begins to undergo a decrease of amount. Therefore. under the provisions of the Act of 1844, the rise in the rate of interest, which indicates the increase in the value of the money of the country, from the diminution of its amount, will take place earlier. In consequence of its taking place earlier, it will check the drain sooner; it will therefore permit the drain to go to a less extent, and by so doing, it will limit the fluctuation in the rate of interest by making the occurrence of it earlier than it otherwise would be."

3805. "Does the bank ever proceed to raise its rate of discount except under an apprehension of a decrease of the store of bullion in the issue department?—The Bank of England can only raise its rate of discount from two causes, one from an actual alteration in the value of capital, and the other from an alteration in the amount of money. When the money in the country is diminished by a drain, its value increases, and the Bank of England must conform to that alteration in the value of money which is meant by the technical term of raising the rate of interest."

3806. "What is the effect of a rise in the rate of discount upon the prices of securities and of goods?—It is very direct and very simple. When the money of the country is diminished, the remaining quantity becomes more valuable; the rate of interest rises; that rise in the rate of interest acts upon public feeling; the public become more cautious, credit and confidence are more or less affected, the remaining money performs its functions more slowly, and in that way the value of money in the country is increased, and increased to whatever extent may be necessary to check the further export of it, and to bring back again that which has gone."

3807. "How does it so?—It does so in this way. The value of money is increased; the price of interest-bearing securities is affected; it falls more or less. Then the foreign merchants in the country begin to perceive its effect; they write to their correspondents abroad, 'Money is becoming more valuable with us here; do not send us other things, send us money; that is the best form of remittance to us now.' That money is sent, and that is the very way in which a small rise in the value of money here produces its natural and legitimate correction. The diminished amount of money is by that process corrected, the money is brought back, and every thing is put straight."

3808. "If that were not so, there would be no object in raising the rate of discount?—I object to the term 'raising' the rate of discount. The value of money rises by natural circum-

stances. The Bank of England have no more power of raising the rate of discount than you or I have; they must conform. As long as they had an unlimited power of issue, they might delay that operation by improperly increasing their issues. The moment they are put under legitimate and wholesome regulations on that point, their power over the rate of interest is gone; they must conform to it."

3809. "The expected effect of raising the amount of discount is to lower the prices of securities and of goods?—It is a recognition that money has become more valuable in this country, and in proportion as money has become more valuable, there will be various means taken to get money remitted from abroad, in preference to other things, until that disturbed relation of the value of money in this and other countries is rectified."

3810. "The natural effect of money being more stringent, is to lower the price of goods?—Yes, that is the principle at the bottom."

3811. "The present principle of currency is built upon that assumption, I presume? — I am hardly prepared to say yes or no to that question. The present system of currency is built upon a very plain and simple principle, namely, that a certain portion of the precious metals is the proper money of this country, and that paper notes are merely a mechanical contrivance, to be used for convenience in lieu of that metal. There is an end of the matter; all the rest are consequences, not causes."

3819. "Will your Lordship be kind enough to define what you mean by 'money;' because at times I observe you use the word 'money' in relation to our foreign transactions, and at times you use the word 'capital?'—I never confound those two. I shall be very glad to refer to any answer in which I have confounded them, in order that I may correct it, but I do not believe that I have done so. Money I apprehend to be this: it is necessary for carrying on the relations of civilised communities that there should be some one universal equivalent, which is taken as such by all countries, and the precious metals are taken and adopted in that character. Then the various conditions of different countries assign a certain portion of the precious metals of the world to each country, and the portion so assigned to each country for the purpose of acting as the universal equivalent, is the money of that country."

I think the following evidence throws great light upon the principles of the currency advanced by the supporters of the Bank Act of 1844, by which paper money and metallic money are supposed to be subject to the same laws:—

3757. "Did I rightly understand your Lordship to say that the money was the capital?—No, I said just the reverse; I say that with money, retained as money, and not used as the means of ob-

taining capital, you can do nothing; you might just as well have a parcel of old iron. When I was a child, a sovereign was given to me, with a grave admonition, that as long as I kept that sovereign in my pocket, I should never be without money; but I soon found that no good came to me from keeping the sovereign in my pocket."

3790. "Supposing there is no metallic money at all, when we cease from a state of barter, is not some legal tender necessary for the interchange of commodities?—If you assume that you cease from a state of barter, of course there must be something to take its place; but a state of barter is the real state at any time; money is only the means of carrying on that barter."

3791. "Our transactions with foreign countries are carried on entirely by barter?—Yes; all transactions are at the bottom barter, and must be so; they cannot be anything else."

3792. "There is the instrumentality of a medium of exchange in a domestic currency, which does not exist in our interchange with foreign countries?—The existence of money renders the transactions of barter far more convenient, but it does not essentially alter the thing at the bottom: commodities must be given for commodities; that must be the bottom of the subject."

I think that Adam Smith gives the true definition of money in the following extracts (b. i. c. 5. v. i. p. 40.):—

"What is bought with money or with goods is purchased by labour, as much as what we acquire by the toil of our own body. That money or those goods, indeed, save us this toil. They contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity. Labour was the first price, the original purchase-money that was paid for all things."

P. 42.:—

"But when barter ceases, and money has become the common instrument of commerce, every particular commodity is more frequently exchanged for money than for any other commodity."

B. ii. c. 2. v. ii. p. 24.:—

"Money, therefore, the great wheel of circulation, the great instrument of commerce, like all other instruments of trade, though it makes a part, and a very valuable part of the capital, makes no part of the revenue of the society to which it belongs; and though the metal pieces of which it is composed, in the course of their annual circulation, distribute to every man the revenue which properly belongs to him, they make themselves no part of that revenue."

That I think is the proper description of money

and its uses, and of its relation to commodities; the gold and silver money yields no revenue, but it is still "a very valuable part of the capital of the society to which it belongs:" the "sovereign" will purchase commodities and pay debt, which "old iron" will not, unless, indeed, it be made legal tender and exchangeable with the "sovereign," when it would lose its character as "old iron." When money is introduced "barter ceases," and it appears to me quite erroneous to say that "commodities must be given for commodities;" the intervention of money introduces a common equivalent to which the commodities exchanged are both made to be equal; the barter, if it may be so expressed, is the barter of the commodities for the gold and silver money, and not of the commodities for commodities.

I have said, p. 3. *antè*, "the payment by money is, *in one sense*, a species of barter, if a barter of all other commodities for one commodity can be so termed — the thing bought or sold for a sovereign, may be said to be bartered for the gold."

Whatever is the produce of labour, like the sovereign, represents labour and must be capital, whether fixed or circulating.

Adam Smith writes thus respecting paper money (b. ii. c. 2. v. ii. p. 25.): —

"The substitution of paper in the room of gold and silver money, replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient. Circulation comes to be carried on by a new wheel, which it costs less both to erect and to maintain than the old one."

P. 26.: —

"There are several different sorts of paper money, but the circulating notes of banks and bankers are the species which is best known, and which seems best adapted for this purpose.

"When the people of any particular country have such confidence in the fortune, probity, and prudence of a particular banker, as to believe that he is always ready to pay upon demand such of his promissory notes, as are likely to be at any time presented to him, those notes come to have the same currency as gold and silver money, from the confidence that such money can at any time be had for them."

That appears to me a true description of paper money, deriving its currency from confidence in the performance of the promise, resting upon a *moral* principle. The promissory notes of the Bank of England represent the bullion in the issue department and fourteen millions issued upon securities; but they rest also upon the solemn engagement of the Governor and Company of the Bank of England to pay them on demand; this is independent of what (3811.) "portion of the precious metals" may be "the proper money of this country;" and of all "mechanical contrivance."

CHAP. XXVI.

A COMPENDIUM OF THE REPORT FROM THE SECRET COMMITTEE OF THE HOUSE OF LORDS, WITH SOME OBSERVATIONS ON THE REPORT AND ON THE EVIDENCE.

I HAVE considered that it may be useful to present to those who may honour these pages with a perusal, a short compendium of the very able "Report" of the Committee of the House of Lords, and of the valuable evidence which was given before their Lordships. I have ventured to make some remarks on the "Report and on the evidence." As I object to the *principle* of the Bank Act, and of the Bank monopoly, and the evidence refers chiefly to the *management* adopted by the Directors to carry into effect the present system, I submit with great deference any remarks I may have made on the *management.* I trust what I have written will be viewed with candour by those who may differ from me: the object of all being the same, to promote the welfare of the country.

REPORT.

"By the Lords' Committees appointed a secret Committee to inquire into the causes of the distress, which has for some time prevailed among the commercial classes, and how far it has been affected by the laws for regulating the issue of bank notes payable on demand, and to whom were referred several petitions and papers relating to the subject-matter referred to them."

Ordered to report:—

"That the Committee have met, and commenced their inquiries by calling for accounts illustrating the state of commercial affairs, and the fluctuations both in the circulation and in the value of securities, for some years past. They have subsequently examined witnesses, who, from their official position, their know-

ledge and experience, were able to give useful evidence, more particularly respecting the pressure and alarm which prevailed at the beginning, and towards the close of the last year. The Committee have also examined into the influence of the 7 & 8 Vict. c. 32., and the effect of the letter of Her Majesty's Government addressed to the Bank in the month of October, at the moment when the commercial panic was most severely felt.

"A sudden and unexampled demand for foreign corn, produced by a failure in many descriptions of agricultural produce throughout the United Kingdom, coincided with the unprecedented extent of speculation produced by increased facilities of credit, and a low rate of interest, and had for some time occasioned overtrading in many branches of commerce. This was more especially felt in railroads, for which calls to a large amount were daily becoming payable, without corresponding funds to meet them, except by the withdrawal of capital from other pursuits and investments. These causes account for much of the pressure under which many of the weaker commercial firms were doomed to sink, and which was felt even by the strongest. To these causes may be added a contemporaneous rise of price in cotton; and with respect to houses connected with the East and West India trade, a sudden and extensive fall in the price of sugar, by which the value of their most readily available assets underwent great depreciation. In what precise proportion these different causes contributed to the common disaster, there is some room for difference of opinion, but that each had a considerable share in producing it, no person has been found to dispute.

"Some of these causes are obviously beyond the reach of legislative control. But upon those which are connected with the extension of commercial speculation, encouraged or checked by the facility, or the difficulty, of obtaining credit, by the advance of capital and the discount of bills, the powers and position of the Bank of England must at all times enable that corporation to exercise an important influence. The committee have consequently felt it to be their duty to inquire into the course pursued by the Bank acting under the provisions of the 7 & 8 Vict. c. 32., and they have come to the conclusion that the recent panic was materially aggravated by the operation of that statute, and by the proceedings of the Bank itself. This effect may be traced, directly, to the Act of 1844, in the legislative restriction imposed on the means of accommodation, whilst a large amount of bullion was held in the coffers of the Bank, and during a time of favourable exchanges; and it may be traced to the same cause, indirectly, as a consequence of great fluctuations in the rate of discount, and of capital previously advanced at an unusually low rate of interest. This course the Bank would hardly have felt itself justified in taking, had not an impression existed that, by the separation of the issue and Banking Departments, one inflexible rule for regulating the Bank issues had been substituted by law, in place of the discretion formerly vested in the Bank. The Banking De-

partment was considered to be thus absolved from all obligation, but that which was connected with the pecuniary interests of the proprietary. Though it may be true, as stated by the Governor and Deputy Governor, 'that if they were to do any thing for the interests of the proprietors that was not for the interests of the whole commercial community, the evil would fall back on the Bank, and, instead of having a beneficial effect, would have an injurious one, as far as the Bank is concerned;' yet this principle does not appear to have been practically recognised in all cases, and the Act of 1844 avowedly left the Directors at full liberty to act according to their own views of their corporate interests.

"But before they pursue this subject further, the Committee feel it their duty to lay before the House, from the testimony of some of the witnesses examined, a more full and distinct account of the causes, extent, and consequences of the distress of the last year. This is necessary, not only for a due appreciation of the facts themselves, but to enable the House to consider what remedial measures may be required, whether by an alteration of the law, by an altered system of administering the affairs of the Bank, or by a combination of both. The following is the statement made on this subject by the Governor and Deputy Governor of the Bank."

Sect. I. Causes and extent of the distress of 1847:

"Messrs. Morris and Prescott. 12. An unprecedented large importation of food, caused by a deficient harvest, required in payment the export of a large amount of bullion, to the extent of about 7,500,000*l.*, from the coffers of the Bank, and probably not less than 1,500,000*l.* from other sources—together 9,000,000*l.* From this great reduction in the available capital of the country, in addition to the still larger amount invested in railway expenditure, acting suddenly upon a previous high state of credit and excessive speculation, arose the pressure in the money market. There was an abstraction of 7,500,000*l.* from the bullion held by the Bank, and consequently a diminution in the notes to that extent. I assume that 1,500,000*l.* may have gone out from the gold in circulation; that may be more or less, but I assume that about 9,000,000*l.* went out in the purchase of food in the course of the year 1847. Then I make a distinction between the panic and the pressure. The panic began from the failures in the corn trade. The price of wheat had risen to about 120*s.* Large arrivals of grain from the continent of Europe and from America, coupled with the prospect of an early and abundant harvest, caused a sudden fall in price to about 60*s.* with a corresponding decline in Indian corn. The failure of most of the corn speculators followed this great reduction in price, and their failure caused the stoppage of an eminent discount broker, having a large country connexion. This latter failure, by closing one of the principal channels of discount between the country and London, caused distrust to extend into the country. Credit became affected by these failures, and several London firms of high

standing also failed. Then followed in rapid succession the failure of the Royal Bank of Liverpool, the Liverpool Banking Company, the North and South Wales Banking Company, some private country Banks, and the Union Bank of Newcastle, followed by a tremendous run upon the Northumberland and Durham District Bank. To these disasters succeeded alarm, and an almost total prostration of credit. The London Bankers and Discount Brokers refused to grant the usual accommodation to their customers, and necessarily obliged every one requiring assistance to resort to the Bank of England. Money was hoarded to a considerable extent, so much so that, notwithstanding the notes and coin issued to the public in October exceeded by 4,000,000*l.* or 5,000,000*l.* the amount with the public in August, still the general complaint was of a scarcity of money. Credit was so entirely destroyed that houses trading to distant countries carrying on their business through the means of credit, by a renewal of their acceptances as they became due, were no longer able to meet their engagements, and were forced to stop payment. This was the state of things previous to the issuing of the Government letter in October.

112. "There are about thirty-three houses, comparatively speaking large houses, which have failed in London; they failed to the amount of 8,129,000*l.* The first seven are expected to pay in full; —of the other houses there is one expected to pay 5*s.* 6*d.*, another 5*s.* 6*d.*, another 6*s.* 6*d.*, another 9*s.*, another 11*s.*, another 12*s.*, another 8*s.*, another 3*s.*, another 5*s.*, &c. The result is, that, with respect to a large majority of those houses, no assistance would have been sufficient to carry them through those difficulties.

113. "Is the average above 12*s.*?

"With the exception of the first seven, which are expected to pay in full, it is believed that the average will not be more than 6*s.* 8*d.* in the pound."

This bullion was deposited with the Bank of England, on the faith of a promise or engagement to restore it, when demanded.

It was imported by the international traders, the great mercantile republic, and was wanted for the use of the same great mercantile republic, of which Great Britain is the most considerable member, as being the most extensively connected with the foreign trade. The export of 7,500,000*l.* of this bullion impoverished no one, it was never "the available capital of the *country*" for any other purpose than to be exported; it could not be absorbed in the national circulation; this exportation *ought* to have produced no pressure on prices or credit, neither should the delivery of this gold have dimi-

nished the resources of the Bank; it was the delivery of gold, and the payment of a debt, due from the Bank, with which the *country* had no concern: it was not the debt of the country.

If the Bank of England had lent individuals too much, that also was an affair of the Bank with which the country had nothing to do; even if nine millions had been exported, leaving seven or eight millions in the coffers of the Bank, the gold could be spared or rather delivered without any inconvenience; or even three or four millions more leaving four or five millions in the Bank, if there had been no division of the Bank in two departments.

The Bank of England has two sets of customers—those who are engaged in the home trade of commerce and manufactures and agriculture, and those who are engaged in foreign commerce: the latter require the gold and silver, as the most convenient commodity to pay debt, or to carry on the round-about foreign trade of consumption, they cannot substitute notes: the former can substitute bank notes for purchase and sale in the home market—is it not consistent, even with the present system, to render extraordinary accommodation, when required by the home trade, in the absence of any demand for bullion from the foreign trade?

A distinction *may* be drawn between "panic" and "pressure;" but a pressure on the money market by the Bank of England may have tended so to reduce prices, that the corn may have been lowered so much in value as to have caused those failures of houses in the corn trade, which occasioned the panic; the Bank of England may have partly produced the pressure, the failures, and the panic, and in this way may have been a principal cause of the mischief that ensued; a fall of 50 per cent. in price on the immense importation of corn was sufficient to ruin many of the importers.

It would be instructive to trace, how far this state of things may have been produced by the fall of prices,

consequent upon the commercial community not receiving the usual accommodation, or loan resulting from their credit, which credit very much depended upon the prices to be obtained for goods; and the apprehension that prices would not be maintained; it would be equally wrong to attribute the entire fall of prices to the conduct of the Bank of England, and to attribute no effect to this cause; this was, doubtless, one considerable cause.

If we can by the establishment of an exchange Bank, remove only one element of needless alarm and consequent panic, we shall remove from the merchants and traders, and owners of property, one great ground of evil and of enormous loss.

As the exchange Bank would not issue notes to supply the place of the precious metals; as they would neither discount nor lend; as they would only, like the Bank of Amsterdam, give cash credits for gold and silver actually in their possession, there could not possibly be any alarm or panic respecting *their* paying, or rather delivering, the gold or silver, when demanded.

All the gold and silver would belong to separate individuals or separate commercial establishments; there would be no *Bank* treasure: there would be the treasure of many nations in this warehouse of the world, but each portion of this treasure having its distinct owner, it would be a bonded warehouse for the free efflux and influx of the precious metals, of this "most convenient commodity," like a bonded warehouse for tobacco, or for coffee or sugar; there can be no general run upon the owners of the bonded goods; there may be a great demand for bullion, from individuals upon individuals; but no demand affecting the Bank as a *Bank*, any more than the demand for bonded tobacco would affect the owner of the warehouse.

"Mr. Horsley Palmer, who had received a signal "mark of confidence from the Bank of England, "in his re-election to the office of Governor, in order

" to facilitate his negotiation of the renewal of the " charter in 1833, has given the following testi- " mony :—

684. " I consider the distress of 1847 to have arisen from the deficient harvest of 1846, and the failure of the potato crop of that year, which rendered necessary a very large importation of foreign grain. Consequent upon the arrangements made for that import, the exchanges with the continent and America rapidly declined, and between the months of December 1846 and April 1847, the demand made upon the Bank in their Banking Department reduced the reserve from nine and a half millions in December to three millions in April, the last two and a half millions of which reduction took place between the 27th of March and the 17th of April. In consequence of that sudden reduction the Bank was compelled under the Act of 1844 forcibly to contract, in order to regain its position, and which forced proceeding caused a very severe pressure for the time upon the money market. Shortly after that period it transpired that speculations for the import of grain had been carried far beyond the power of the houses engaged in them to support, added to which the quantities imported in the months of May, June, and July occasioned a fall in the price of wheat from 110*s.* per quarter to 60*s.*, and even below that value. This fall in the price of grain occasioned failures to a considerable extent in the corn trade, which engendered a material discredit in that and other branches of commerce. Subsequently to those events came the suspension of almost all the firms engaged in the trade with the Mauritius, which was followed by a general discredit, principally affecting the houses connected with India, particularly those most largely engaged in the export of British manufactures. These extensive suspensions caused a general discredit, and an abstraction of bank notes and coin from circulation to a very material amount, thereby creating a largely increased demand upon the reserve of the Bank; which, under the Act of 1844, it was found most difficult, and indeed impossible to sustain, the amount of the reserve having been reduced on the 23rd October to two millions, including London and the Branch Banks. Thus situated, notwithstanding the Bank had advanced the rate of interest in August, September, and October, to 5½, 6, 7, and even 9 per cent. per annum, the demand continued to increase until the 25th October, when relief was afforded by withdrawing the restrictive clause of the Act of 1844, and by which the pressure was immediately relieved, and credit has since been gradually restored. During the whole period, from the middle of April to the day of withdrawing the restrictive clause in the Act of 1844, the foreign exchanges were in favour of this country."

The *reserve* since the Bank Act came in operation, does not mean, as formerly, the reserve of gold in

the *Bank of England;* but the reserve of Bank notes, or *receipts for gold* in the *Banking department.*

Mr. Palmer's evidence is very important. It may be proper to premise, that in his evidence before the Committee in 1832, Mr. Palmer (p. 69 *antè*) designated thus a par of exchange; "a par of exchange in the language of the Bank means, no demand for bullion to be exported." It appears that in consequence of the large demand for food, "the exchanges with the Continent and America rapidly declined," consequent upon the arrangements made for importing it; and the reserve was reduced from nine and a half millions in December to three millions in April; two millions and a half being withdrawn between the 27th March and the 17th April. This bullion had been purchased with British commodities, and the export of the 6½ millions of bullion, being only the most convenient commodity, was no detriment, but on the contrary a great benefit to the country; it supplied us with food, for which we paid by a commodity, which had been purchased with British manufactures and produce; the *country* was not endangered or hindered by this proceeding. It has been calculated that thirty millions worth of food was imported, and large quantities of other commodities must therefore have been exported to pay for it. It does not follow that much more gold would have been exported, if no stringent measures had been adopted; and the food might have afforded if not a profit to the importers, at all events, a less ruinous loss; this gold being connected with the Bank of England, "(684.) the Bank was compelled under the "Act of 1844, forcibly to contract in order to regain "its position, and which forced proceeding caused a "very severe pressure for the time upon the money "market." Now mark, "this forced proceeding" was in order that the Bank of England might "regain its position." Should not the connection be severed between "the position of the *Bank*," and "the position of the country;" between the prosperity of the *Bank*,

and the prosperity of this mighty empire? Can any thing be more frightful, than that the commerce of this mighty empire is to depend upon the *position* of a chartered corporation; which position may be occasioned by a want of prudence or a mistaken principle of management or a fallacious system? But the great pressure, and which occasioned the interference of the Government, in sending a letter annulling the most important provision of the Act, this great pressure took place in October, when the exchanges were favourable, when gold had been flowing into the Bank from abroad since April; some small demand for the home circulation took place, in consequence of the want of country bank notes, most probably; and which might not have existed if the restrictive clause on the Bank of England issues had not prevented an issue of notes. It appears that this restrictive clause occasioned the hoarding of notes, just as in a besieged town, if notice were given or fears prevailed, that the needful food would not be obtained, each individual would keep or hoard an additional quantity of food; but as soon as it was known that there would be no interruption to the introduction and free circulation of food, the hoarding would cease, with the apprehension of scarcity being removed. May not the restrictive clause have occasioned the pressure of the Bank, and the hoarding of notes by the bankers; as all exportation of gold had ceased, the domestic circulation would be the only claimant of gold? But the *exportation* of gold is a matter of necessity in the absence of other suitable commodities, as the export of gold will not be attended with loss. The demand for the home circulation, when not interfered with, varies only to a limited and very appreciable extent; the circulation *can* only absorb a certain quantity of notes and coin under ordinary circumstances; that is, when not interfered with, and in the absence of mistrust or panic. The demand for gold for exportation is peremptory; that had ceased; the demand for notes and gold for the home circulation is *condi-*

tional, depending upon the *condition* of public confidence; confidence is the *basis* of the note circulation as it is the *basis* of a bill circulation; the basis of both is the belief that a promise will be performed, when demanded, or performed at a given time: this confidence is the foundation of the circulation of both, and the mighty superstructure of the millions which circulate in nations, and among nations, in the form of bills, rests upon the same foundation as the five pound note. Destroy this confidence and the superstructure of promissory notes and of bills falls to the ground: restore this confidence and the superstructure of both regains its position; this confidence in the promissory notes of the Bank of England was not endangered; so far from it, that the hoarding was the best proof of it; the only confidence which was endangered, and which was changed into mistrust, was the confidence of being able to get the *promissory notes;* the gold was spell-bound in the coffers of the Bank; it was not wanted for the home circulation nor for exportation; the promissory notes to the amount of four millions were spell-bound in the coffers of the country bankers, and of the bankers of London—because it was supposed to be the interest of their correspondents, and their own, that they should remain there. The *notes* would have circulated with cheerful reliance on the promise of the Bank of England to perform its engagements; how was this confidence met, what did the restrictive clause of the new system impose?

" Mr. Samuel Gurney, the head of the house of " Overend and Co., bill brokers, whose experience in " money affairs is universally known and acknow- " ledged, gives the following description of the events " of 1847: —

1098. " The crisis in April, 1847, arose from several causes. The failure of the potato crop and harvest of 1846, leading to an enormous importation of food coming upon an excited state of price and transaction, aided by the Bank canvassing for discount, and fomenting transactions, under the new principle, that in the

banking department they are to act on the same principle as private bankers, may be considered as the causes of that crisis. These led to an extent of demand upon the Bank for discount and otherwise, the yielding to which led them beyond the bounds of prudence, seeing the early payment of the dividends was at hand. Under the Currency Act they found themselves under the necessity suddenly of not only withdrawing their usual accommodation by way of discount, but of calling in with a severe and unrelenting hand the loans they had made upon the security of bills, Exchequer Bills, &c. The suddenness and severity of this change was forced upon the Bank by the Currency Act. Had it not been for that, they would have spread over months what they felt themselves compelled to do in a few days, to the serious derangement of the money market and to much alarming disaster. It is queried, was this crisis owing to the Currency Act? I think it cannot fairly be laid to the Act only, but to the causes before specified. It may, however, with truth be asserted, that the force of it and the evils of it were much aggravated by the effect of this Act, in the course of action it forced upon the Bank."

A commercial *crisis* may be produced by overtrading and commercial losses, it is the force and aggravation of the evils of this crisis, which is the question, and whether the causes of a commercial crisis and of a bank crisis may not sometimes be traced to the present system of banking.

" Mr. G. C. Glyn, M.P., a leading London banker, " and as such having an extended country correspondence and connexion, was also examined by " the Committee. This witness had been frequently " examined before both Houses of Parliament on " similar subjects, and his experience as a practical " banker gives peculiar weight to his opinions. His " evidence was as follows : —

1648. " I consider that the pressure which occurred in April, 1847, arose principally from the large importation of corn and other necessary articles of food, and I consider also that the foreign exchanges having been affected by the operation of those causes, the pressure in point of fact was necessary, and was carried only to the extent which was required for the proper re-adjustment of the foreign exchanges. The foreign exchanges were re-adjusted, and in the course of the autumn set strongly in favour of this country. The harvest turning out very good, in the months of August and September, large failures occurred amongst the speculators in corn."

Mr. Glyn then describes the state of the country in September and October, "numerous failures," "the "pressure gradually increasing," "a great deal of "discredit and want of confidence," and, "a general "distrust that seemed to operate amongst nearly all "mercantile classes, and was rapidly extending itself "to the banking establishments throughout the coun- "try," and he proceeds,—

"In point of fact the difference between the two periods of April and October was extremely striking. The pressure of April was very soon over, and the Bank did everything within its power for the mercantile body at the time. Although they had been obliged to restrict their operations very much, yet they attended to the applications made to them, particularly those from Liverpool and some other places. But the pressure that occurred in October last arose apparently from entirely different causes. It proceeded from an apprehension, on the part of all mercantile men, that the want of confidence was becoming so great that at last the reserves of the Bank would be driven down so very low, that, in point of fact, persons who were possessed of property would not be able to convert that property into Bank of England notes."

It would be inferred from the above reasoning, that a scarcity, requiring "a large importation of corn and other necessary articles of food," must be accompanied with a pressure sufficient "to re-adjust the foreign exchanges," in other words to stop the exportation of bullion. It must not be forgotten that this bullion is only demanded when it is "the most convenient of all commodities," whether for the payment of debt, or for carrying on the round-about foreign trade under existing circumstances; that it is equally advantageous to the *country*, that this commodity should be exported as any other *foreign* commodity; whether it be gold that is exported or other foreign merchandise, both have been *produced* by foreign industry and *paid for by British industry*, there is no mischief to the *country* in exporting either commodity. But the pressure is applied to check this preference of gold, which leaves no profit to the exporter, by substituting another commodity that shall leave a profit, by lowering the prices of

produce and manufactures below the level of the *foreign* market, and *artificially* to insure a profit, and, therefore a preference to the exportation of these commodities; in addition to scarcity of food and its privations, we are to have as a *necessary* consequence a stagnation in trade, and consequent non-employment of labour, and all this with the intent of providing for the convertibility of the Bank of England note; the note was obviously convertible when it was paid in gold to be exported, the real effect is to produce an *inconvertibility* of the Bank note, to annul the demand for payment of the note and for the delivery of bullion, and this is the sign that the Bank has regained its position, that the "exchanges are re-adjusted," and the "convertibility of the Bank of England note secured." A common interest is established between the Bank of England, and the *exporting* merchant, and the foreigner. The Bank retains the gold which is still "æs alienum," the exporting merchant profits by the low prices of the commodities exported, and the foreigner rejoices in the cheap merchandise. All these three are benefited, but where is the manufacturer, and the owner of this cheapened commodity? Those who have produced the articles are distressed, and many, perhaps, ruined. The Chancellor of the Exchequer may rejoice in the increased quantity of manufactures exported, and the fundholder has the advantage of the advanced price of stocks resulting from unprofitable trade: who can doubt the prosperity of the *country*, who can dare to question these signs of prosperity, increased exports, and plenty of bullion in the Bank of England, the funds at the same time high, and the dividends of the Bank of England perhaps augmented with a bonus!

"The committee also examined Mr. G. W. Norman, "a Director of the Bank of England, a witness "friendly to the Act of 1844, and one who is un-"willing that any alteration should take place in its "provisions.

"He was asked what were the causes of the pres-

" sure on commerce in the spring and autumn of " 1847 ? and his reply was to the following effect : —

2680. " I consider that the causes which produced the pressure upon commerce in the spring of last year and in the autumn were the potato disease and the failure of other crops, the vast absorption of capital arising from the railways, and considerable overtrading in some branches of commerce."

" Mr. Norman added that he believed the value of " foreign corn imported amounted to 30,000,000*l*., for " which payment must necessarily be provided.

" Mr. Cotton, who, as well as Mr. Horsley Palmer, " had twice been elected Governor of the Bank, and " from the same motive, whilst he considers the dis- " tress to have been 'greatly exaggerated' (8192.) and " 'nothing equal to what existed in 1825 and 1839,' " fewer banks and solvent houses having, in his judg- " ment, suspended payment, adds,

3194. " My impression is that there never was a time when so many parties had engaged in operations so much beyond what they ought to have done, with reference to their capital, as in the year 1847."

He speaks of the indiscreet trading with India, Mauritius, and in the corn trade, and observes, 'I think we might have expected many more solvent houses to have failed.' 'After the failure of one or two houses it appeared that credit had been stretched to a most unreasonable extent, larger than I ever recollect.'

" The great majority of witnesses do not concur in " Mr. Cotton's opinion, but unite in representing the " intensity of the pressure as more severe than the " distress of 1837 and 1839; many even consider it " to have been greater than that of the year of panic, " 1825.

Mr. Palmer 679—681 : —

" Has the distress and pressure upon the public been greater or less during the last year, than in any preceding cases to which you have alluded ? — I think it was greater during part of the year 1847 than ever I remember.

" With greater damage to commercial credit and fortunes than on any other occasion ? — I should say certainly.

"Do you apply that observation to the country generally or to London?—I apply it to the whole country, especially to all the commercial parts of the country."

"Mr. Gurney's opinion on this subject is equally "distinct and decided,—

1238. "Are there in the history of the money transactions of this or of any other country, circumstances that can be at all compared to those that have taken place in this country in the last twenty months?

"I think that the catastrophes of last autumn were beyond all parallel in our monetary history, as far as I know."

"Mr. G. Norman concludes that in 1837 and 1839, "the causes of pressure were much less extreme than "in the year 1847. In 1839 there was but little in-"solvency of any kind. In 1837 there was, as well as "the witness recollected, no considerable insolvency "except in the American trade. In 1847, on the con-"trary, he stated (2702.) that 'every one seemed "afraid of his neighbour,' and in the opinion of Mr. "Tooke the time was approaching when 'nobody "would pay anybody.' Another witness, Mr. Lister, "states 'there was a panic through the country; "people thought they were in an iron cage, and could "not get out of it; that iron cage was the Act of 1844.'"

"On the other hand, it is right to observe, that some "witnesses represent the pressure in 1847 to have "been less severe than at several former periods. "The Governor and Deputy-Governor of the Bank, "in the following questions, state their impressions "to this effect, and as regards the comparative con-"sequences of the commercial distress in different "years."

95. "You said that you thought that the Act of 1844 had worked extremely well to secure the convertibility of the notes; do you apprehend that there would have been any danger of the notes of the Bank of England not being convertible if it had not passed?—I think they would have been in danger. On one or two previous occasions, I think, they were in danger—in 1825 and in 1839."

96. "And you think that they would have been in danger now, but for this Act?—They might have been."

Mr. Prescott: —

"I agree with the Governor. I think that the pressure was not so great in 1839 as it was in 1847, and therefore that the danger in 1847 would have been greater, but for this Act."

97. "Was not the pressure greater this year than you have ever witnessed? — My own experience scarcely carries me back to 1825, but I should conceive that the pressure in one or two weeks in 1825 was greater than in 1847."

Mr. Morris: —

"I believe that the pressure probably has been greater in London and in Lancashire, and probably in other places, but I doubt whether the pressure generally throughout the country has been so great as it was at the former periods."

98. "Do you consider that circumstance at all attributable to the action of the Act of 1844 upon the private bankers in the country? — I consider that the action of the Act of 1844 upon the private bankers of the country must have been of the greatest possible benefit."

"And to have preserved the country from the failures of country banks which took place in 1825?—To have preserved the country from the misfortunes fallen into in 1825."

104. "Assuming that the pressure in 1847 has been more severe upon the commercial world in London than upon previous occasions within your knowledge, should you say, considering the distance at which we have now arrived from the period of pressure itself, that the recovery from it has been more rapid, and that there has been less subsequent pressure, than upon former occasions? — I think the recovery from it has been much more rapid, but it is difficult to say when the recovery has taken place."

105. "Without assuming at the present moment that we have actually recovered from it, but looking at the course of affairs since October, should you say that there has been less severe distress consequent upon the panic, than there has been upon previous occasions? — I think that the reaction has taken place sooner than it otherwise would have done."

109. "The question is, not as to what would have happened if the Act of 1844 had not passed, but merely as to the matter of fact, whether the distress and the sacrifice of capital, and the general damage, both to the commercial character as well as the credit of the country, has not exceeded in the last year anything that in your experience you ever witnessed? — I think in the failure of large houses it has exceeded, but whether it has as far as the whole country is concerned, I am not prepared to say. My impression is, that the damage to the country from the panic of 1825 was greater and more general then than any which has taken place in 1847."

Mr. Prescott: —

"I think as many as sixty or seventy country banks failed in the end of 1825, and now there has not been a dozen."

In justice to the country bankers I may observe that, "Sir M. W. Ridley said in the House of Commons, 3rd June, 1828, that: —

"In 1825 and 1826 there were 770 country bankers, and of these sixty-three had stopped payment. But of the sixty-three twenty-three had subsequently resumed their payments, and paid 20*s*. in the pound; and of the remainder, thirty-one were making arrangements for the payment of their debts, and there was a great hope that every farthing would be paid. The country bankers who had failed in 1826, had paid, on an average, 17*s*. 6*d*. in the pound." *

"Mr. Jones Loyd will be found in his evidence, "as follows, to express his opinion more strongly as "to the greater intensity of the pressure on several "former occasions than in 1847: —

1426. "Within your experience do you know any time in which there was a greater disturbance of credit, so as to necessitate an increase of the reserves, than there was in that month of October, 1847? — I believe that the disturbance of credit was greater and more widely spread in 1825 than it was in 1847."

1496. "Do you suppose that any evil can occur to a great commercial city greater than that which happened during the year 1847 in the city of London, or that there ever were instances in which so complete a sacrifice of property, and so complete an impoverishment of commercial capital, has taken place in any country? — I have no doubt that there existed much greater pressure, and that the evils alluded to in the question occurred in a severer form in this country in 1783, in 1793, and in 1825. We are always apt to form an exaggerated estimate of the present evil. This is the account given by Mr. Tooke of what took place in 1783: 'This contraction of the currency was attended with a great rise in the rate of interest. Consols fell from sixty-eight to fifty-four, omnium from a premium of 8 per cent. to below par. Every one, says Chalmers, must remember how impossible it was to borrow money on any security for any premium.' Then again take 1793: 'Many houses of the most established credit failed. Houses of undoubted solidity, possessing ample funds, which actually did in a short time enable them to pay every shilling of their debts,

* Tooke on Prices, v. ii. p. 161.

were obliged to stop payment. Some bankers who almost immediately on recovering from the first panic, resumed the regularity of their payments were obliged to make a pause. Many whom the temporary assistance of even a moderate sum would have enabled to surmount their difficulties could not obtain any accommodation. Those who had any money, not knowing where they could place it with safety, kept it unemployed and locked up in their coffers.' Such is the account given in Macpherson's Annals of Commerce of the pressure in 1793. It would be a most incorrect and exaggerated account of the state of things in 1847. Then again as regards 1825. We have Lord Ashburton's account of 1825, as given in Sir Robert Peel's speech, which, taken as a description of 1847, would be a great exaggeration."

The Committee observe: —

"Such is the description of the commercial world in 1847, "given by well-informed witnesses; and the Committee consider "that a more alarming picture of the consequences of panic and "discredit could not well be given. It must also be recollected that "in some respects the conjuncture was favourable. Had there been "at this time any domestic political alarm, had there been any "foreign war, or any speculations in foreign loans, or had the state "of the balances in the Exchequer been such as to render necessary "large advances from the Bank on deficiency bills, the extent and "intensity of suffering, great as they actually were, would have "been rendered still more formidable. But from these sources of "danger the country was happily exempted. Still it is clear to "your Committee that the difficulties and dangers of the case were "such as to require a remedy, prompt, decisive, and effectual."

It may be useful to trace what difference existed in the circumstances, attending the different money crises, of 1793, 1825, 1837, and 1839, and if they resemble the crisis of 1847; I subjoin the following extracts from Mr. Tooke's "History of Prices," vol. i. p. 176: —

"The commencement of 1793 is among the most memorable in the annals of this country, and of Europe, and indeed of the civilised world. It was in February of that year that the war with France, which, with the intermission of a few months, lasted for upwards of twenty years, was declared."

"There had been immediately preceding that event a great revulsion and derangement of commercial credit, not only in this country, but in the principal trading cities of the continent of Europe."

"Sir Francis Baring, in a pamphlet published in 1797, observed, '"A circumstance which very materially contributed to produce the distress of 1793, was the sudden, unexpected declaration of

war. That dreadful calamity is usually preceded by some indication which enables the commercial community to make preparation. On this occasion the short notice rendered the least degree of general preparation impossible, and which may be ascertained by the prices of stocks in the preceding month of October, and various collateral authorities.'"

Tooke, p. 178.:—

"This fall of prices does not seem to have been a direct or obvious consequence of the war; it was rather the effect of a recoil from extensive speculations, which had their origin two or three years before, connected with the extensive circulation of mercantile paper already alluded to. One of the chief causes of those speculations seems to have arisen on the ground of apprehended scarcity of colonial produce in consequence of the revolution in St. Domingo, which at that time constituted the largest source of supply of sugar and coffee to the continent of Europe."

P. 195.:—

"The treasure of the Bank, which had been 8,055,510*l.* in August, 1791, was reduced in February, 1793, to 4,010,680*l.*, while its circulation was maintained at nearly the same amount of between eleven and twelve millions. There had been a decline of the foreign exchanges in 1792, which may account, in some degree, for the drain; the greater part, however, of the drain seems to have been occasioned by a demand from the country bankers for the purpose of enabling them to meet the run which they experienced. But although the Bank fully kept up the amount of its issues, while it had supplied a large amount of gold to the country, the total of the circulating medium at the beginning of 1793 was in a very contracted state, or, in other words, the pressure on the money market was very severe; and this, notwithstanding that the Bank was liberal in its discounts, which had increased from 1,898,640*l.* in August, 1791, to 6,456,041*l.* in February, 1793."

The demand for gold appears to have been in a great degree for the supply of country banks; such a demand is not likely to occur now, since the number is so reduced by the establishment of Joint-Stock Banks, and as the Bank of England notes may be legally paid for sums above five pounds, instead of gold. On the panic of 1825, Tooke, ii. 161.:—

"The panic was then at its height; nearly seventy banks in town and country suspended their payments in the course of the single month of December last (1825), Bank of England notes and gold were almost the only medium which would then be accepted in payment throughout the country; but Bank of England notes, where even they were taken as readily as gold, could not supply the chasm created by the discredit of the local paper, since the

Bank had ceased to issue one pound notes; gold, therefore, was required specifically for this, as well as for the more general purposes of meeting the demand from want of confidence in the paper."

The circumstance of there being no country circulation of one and two pound notes, makes a broad distinction in the circumstances attending the panic of 1825 and 1847, there was no demand for gold on this account in the latter period.

The Directors of the Bank of England in the memorandum delivered to the Parliamentary Committee of 1832, (Gilbart, p. 58.) estimated the amount of the country small notes in circulation at about seven or eight millions to be provided for, according to the intention of paying them off in 1825. The demand for the payment of these small country notes, in the panic then existing, would occasion an internal demand for gold on the Bank, quite independent of the exchanges. A very large export of gold took place also in 1825, connected, doubtless, with the large speculations in foreign loans. Mr. Haggard, p. 12., states that: —

"In a return made in February, 1825, the stock of gold coin in deposit is stated at 7,285,000*l.*, while the bullion was only 1,572,000*l.* Unfortunately this year a large demand was made for the precious metals for international purposes. One individual exported between six and seven millions, which consequently took the greater part of the stock of sovereigns."

This exportation would be quite independent of the *commercial* exchanges to pay a balance of debt, arising from any difference in value between the imports and exports. They were probably exported to pay in great part the investment in foreign loans.

As regards the demand for gold in 1836 it has been justly attributed, in part, to the operations of the American Government, in order to secure a circulation of gold coin.

Mr. Palmer states, p. 29. (Causes and Consequences): —

"The reduction which took place in the bullion of the Bank from April to September last (1836), is that to which it is now neces-

sary to advert. The diminution amounted to 2,600,000*l*., and was effected in the following manner:—

"200,000*l*. amount of silver sold.

"100,000*l*. gold ditto.

"2,300,000 sovereigns supposed to have been exported to America."

The alteration in the currency regulations of the United States, which legalised the circulation of sovereigns as a legal tender, may account for the exportation of the sovereigns: this would be independent of the exchanges, as affected by *commercial* transactions.

"The Agricultural and Commercial Bank in Ireland stopped payment (Tooke, vol. ii. p. 259.) in November, 1836, and the difficulties of the Northern and Central Bank in Manchester were at the same time becoming a matter of notoriety."

The exportation of bullion in 1839 is supposed by Mr. Tooke (v. iii. p. 114.) to have been in a great degree occasioned by the low rate of interest charged by the Bank, $3\frac{1}{2}$ per cent., which continued till the 16th May, when the rate of discount was suddenly raised to 5 per cent. and $5\frac{1}{2}$ per cent. Tooke, vol. iii. pp. 86. and 114.

This created (p. 87.) "a considerable sensation in the money market:" —

"The assistance of the Paris bankers was resorted to (p. 89), and the accommodation granted consisted of credits by twelve of the leading firms in Paris to the extent of 50,000,000 of francs, or 2,000,000 sterling, to be drawn against for account of the Bank of England."

"Sect. II. Treasury letter, 25th October, and its "effects."

"That remedy was sought and found in a depar-"ture from the restricted principles of the Act of 1844, "authorised by the following letter of the first Lord "of the Treasury and of the Chancellor of the Ex-"chequer, dated the 25th of October:—

The Treasury letter, after describing the state of trade, recommended to the Directors of the Bank of England, in the present emergency, to "enlarge

the amount of their discounts and advances upon approved security; but that, in order to retain this operation within reasonable limits, a high rate of interest should be charged." "In present circum-"stances they would suggest, that the rate of interest "should not be less than 8 per cent." "If this course "should lead to any infringement of the existing law, "Her Majesty's Government will be prepared to pro-"pose to Parliament, on its meeting, a bill of indem-"nity. They will rely upon the discretion of the "Directors to reduce as soon as possible the amount of "their notes, if any extraordinary issue should take "place, within the limits prescribed by law."

What the public wanted was, an assurance that the usual exchange of bills payable at a future day, for Bank of England notes payable on demand, would not be interrupted; it was not altogether the loan of *money* that was wanted, but a power of disposing of *undue good* bills for *good due* bills, or notes payable on demand, a restoration in fact of the circulation to its ordinary channel; it was not gold or silver that was wanted, it was an absolute want of Bank of England notes, which were hoarded by those who thought they might possibly want them, either for their own use, or the use of their country correspondents: it was a want of the means of discharging debt by those who abounded with property, which, on common occasions, would command those means. It was the same as if by any unaccountable proceeding, all the silver and copper coins were withdrawn from circulation, and no change could be obtained for the gold coin, which was alone to be procured; or rather as if all the promissory notes under 100*l.* were withdrawn, and there were no means of paying by promissory notes the inland bills of smaller amount; the difficulty of the country arose solely, as far as respected the absence of Bank of England notes, from an erroneous application of the funds at the disposal of the public; the notes were hoarded, instead of circulating among the public.

It was a defective circulation acting upon excessive credit, and over trading; and then it became a deranged commerce, and a deranged credit, arising from a deranged circulation, and this derangement of the circulation gave rise to the panic; the substitution of bank notes, when *unconditionally paid in coin to the bearer on demand*, for undue bills, *when unexceptionable in character* would appear *at the discretion of the banker*, to be as much a rule of the circulation of bills, as the payment of coin for the bank notes is a rule of the circulation of bank notes; in both cases it is a substitution of prompt payment for credit.

There was no want of confidence in the Bank of England note on the part of the public, and no want of confidence in the bills offered to be discounted on the part of the brokers, but there was a want of confidence in the usual exchange or accommodation, in substituting, one sort of paper money for the other; there was no want of confidence in the value of the bill, but in the power of changing it; something like what occurred in the time of Sir Isaac Newton, when he stated in his report of the 21st September, 1717, "that if silver money should become a little scarcer, people would in a little time refuse to make payments in silver without a premium." * Those who had silver money would not part with it, as those who had bank notes would not part with them.

"Mr. Loyd states (1500.) that the 'Bank did nothing "under the letter; the amount of notes with the "public was not increased; that power was not ex- "ercised.' The letter was nevertheless actively and "powerfully operative."

2711. "The issue of the letter to a considerable "degree relieved the money market," observes Mr. Norman, "by holding out to persons the certainty "that they might get accommodation, whereas before "they feared that they should not." The amount of "notes (Cotton, 3262.) hoarded by bankers and com- "mercial men was at once released. These notes

* Lord Liverpool, p. 80.

"have been estimated by Mr. S. Gurney, at about "4,000,000*l*., and this acted as effectually as if an "additional issue on securities had been made by the "Bank.

"A resolution was entered into on the 25th of "October, by the court of directors, expressing an "opinion that 'no deviation from the provisions of the "Act of 1844, regulating the currency was required, "in consequence of any difficulties on the part of the "Bank,' but that they consented to the measure re-"commended by Her Majesty's Government, on the "grounds of public necessity urged by the first Lord "of the Treasury and the Chancellor of the Exche-"quer."

The first Lord of the Treasury and the Chancellor of the Exchequer preferred public utility to the continuance of the money pressure; the greater the pressure the more invulnerable was the Bank; the country was preferred to the Bank.

"Sect. III. Efficiency of the circulation not iden-"tical with its money amount."

"The inflexible rule, considered to be invariable "and self-acting and adopted by the legislature, as "connected with, and consequent upon the separation "of the departments of issue and of banking, and the "regulations provided for both, is founded on cer-"tain principles which, before they can be adopted, de-"mand very serious examination. The Act appears "to assume that one fixed amount of notes out of the "custody of the Bank, and in the hands of the public, "will at all times produce the same effect, and will be "governed by the same laws. Unless this proposition "be true, the uniform and fixed rules of the Act of "1844 can hardly be justified."

The Committee conclude that "the efficiency of the "circulation cannot be estimated, merely by its "numerical amount," and in confirmation, they adduce the authority of the Bullion Committee, in 1810. "The mere numerical return of the amount of bank

"notes out in circulation, cannot be considered as at "all deciding the question, whether such paper is or is "not excessive. * * * The effective currency of the "country depends on the quickness of circulation, and "the number of exchanges performed in a given time, "as well as upon its numerical amount; and all the "circumstances which have a tendency to quicken or "to retard the rate of circulation, render the same "amount of currency more or less adequate to the "wants of trade. A much smaller amount is required "in a high state of public credit than when alarms "make individuals call in their advances, and provide "against accidents by hoarding, and in a period of "commercial security and private confidence, than "when mutual mistrust discourages pecuniary ar-"rangements for any distant time."—Bullion Report.

This "Report" was written in 1810, during the existence of the Bank Restriction Act, but it is equally applicable when the Bank of England pays its notes in cash, it is a principle of universal application; it applies equally to notes payable on demand, and to notes payable after date, or bills of exchange, whether foreign or domestic, to the national coin, to the bullion or money of the great mercantile republic, to every description of money and of credit; and all these several denominations ought to be comprised in the term currency, every medium employed in the transfer of property founded upon confidence in the certainty of the goodness of coins, and upon confidence in the "fortune, probity, and prudence" of those who promise to deliver coin: they constitute the currency of the country, and may all be included in that term as used by the "Committee" in the above just remark, and all ought equally to be emancipated from any inflexible rule.

Mr. Samuel Gurney states:—

1116. "The effect of that panic was to cause very general distrust, and a gradual running down of the reserved fund of the Bank as well as of the bullion. After a little time people began to think, under the influence of this panic, how are we to get cir-

culating medium? And the wealthy and the more powerful took care, very largely to over-provide themselves, and drew upon the reserves of the Bank infinitely beyond the real necessities of the case. The consequence was, that the amount of notes in the hands of the public, amounted to nearly 21,000,000*l.*; and I have not the slightest doubt that, at that period, at least from four to five millions sterling of the notes issued were locked up and inoperative, in consequence of the alarm and of a fear of not being able to get bank notes at all."

"Many other statements, authorities, and illustra-"tions might be given, exemplifying the same prin-"ciples, and proving the evil consequences of dis-"regarding them; but enough has been stated to "prove, in the judgment of the Committee, that the "inflexibility of the rule prescribed by the restrictive "clauses of the Act of 1844, is indefensible, when "equally applied to a state of varying circulation, and "that its enforcement in 1847, was an aggravation "of the commercial distress, and was therefore wisely "set aside by the authority of the Government on the "23rd and 25th of October."

"Sect. IV. Inapplicability of the same rule to periods "of favourable and of adverse foreign exchange."

"The Committee will now proceed to consider an "analogous question; namely, the connexion between "the act and the state of the foreign exchanges. It "will be observed that the two questions of the "efficiency of the circulation, and of the contrast "existing between a favourable and adverse state of "foreign exchange, are intimately connected; inter-"nal demand, the hoarding of notes and coin, and "the increase of banking and commercial reserves, "being frequently the concomitants and consequences "of a state of things perfectly compatible with a "favourable foreign exchange."

"In order to make their observations in respect to "the foreign exchanges more intelligible as applied "to the year 1847, it is expedient to bear in mind the "leading facts of the case. Two different periods of "pressure occurred in that year, the one in April, the

"other in October. These two periods were clearly "distinguishable. In April the foreign exchanges "were adverse, and the Bank was subject to a heavy "drain of gold for export, more especially to the "United States. In October the exchanges were "favourable. Gold was flowing in steadily, and the "advices from abroad showed that more extended "supplies might be depended on. This distinction, "which is of the highest importance, is drawn by the "Governor and Deputy-Governor of the Bank of "England."

11. "The pressure in the months of September and October, I consider to be a very different pressure from that in the month of April. That in the month of April arose principally in consequence of the pressure from the export of the precious metals, and the circulation becoming more contracted, whereas I consider that in October to have arisen from a state of panic."

145. "The question refers to the general principles of banking management: supposing the Bank were altogether free from the obligations of the Act of 1844, would not you as a banker feel it expedient to act with more caution with respect to your banking reserve at a time when there was a foreign efflux of gold than at a time when gold was coming in? — Decidedly."

"When Mr. Horsley Palmer was asked whether a "different rule ought to be applied to the two cases "under consideration, his answer was as follows:"—

731. 732. "Do you, from your experience connected with this subject, conceive that it is defensible in reasoning, or maintainable in practice, that in managing the Bank the same rule should be applied to the case, whether the foreign exchanges be favourable to the country, or adverse to the country?"

"I think it is always in the power of the Bank to protect itself against a foreign demand, but it is totally impossible to protect itself against an internal demand."

"The question is with respect to the restriction imposed upon your issues, for the accommodation of the public, whether you think that it is defensible in theory or maintainable in practice, that you should have the same rule in managing the Bank, when the exchanges are adverse and when the exchanges are favourable? — Certainly not."

"The observations of Mr. Huskisson were, in like "manner, brought under the notice of the Governor "and Deputy-Governor of the Bank with a view of

"case the difficulty has been extremely aggravated "by it, I come to the solid conclusion, that the Act "must be relaxed.'"

"The Committee have hitherto considered the question of the distinction between periods of an influx "or efflux of gold, produced by the exchanges as "affecting the Bank of England only. But the sub-"ject requires further investigation in relation to the "effects produced on private credit and private in-"terests, by confounding these two cases. It would "appear from what has been already stated, that if an "extension of currency were to take place, when the "exchanges are adverse, the convertibility of the note "would be endangered; a contraction of the currency "is consequently called for. If, on the contrary, at a "time of internal discredit, but of a favourable ex-"change, the same contraction should be applied to "the currency, panic must ensue with all its for-"midable consequences."

"Sect. V. The Act of 1844 applies the same rule "in cases of an adverse, and a favourable foreign ex-"change."

"The Committee now proceed to examine whether "the Act of 1844 does effectually discriminate be-"tween the two cases of favourable and adverse ex-"change, which the evidence and authorities they have "quoted prove to be indispensable, or whether, on the "contrary, the obligations of that Act are not uniform "and identical in both cases. This latter proposition "is deducible from the following evidence of the Go-"vernor and Deputy-Governor of the Bank."

146. "You have stated that in prudent banking a different line of conduct would be pursued by a banker on those two occasions; does not the Act of 1844, compel the Bank of England to act upon precisely the same principle, whether the lessening of the gold arises from a foreign demand or from an internal drain? — The difficulty that we have is from mixing up the two departments together; but certainly the Act of 1844 obliges us to act upon the same principle, except that that which is an internal demand may merely arise from accidental circumstances, which

will be corrected when the foreign import, or the purposes for which it shall be wanted have been accomplished, whereas the export of bullion would necessitate an immediate corresponding limitation in the amount of notes, and therefore affect our reserve."

" During an examination tending to show the dis- " tinction between exchanges adverse or favourable, " the Governor of (283) the Bank stated that, there " was a distinction between (284) the drain according " as it was foreign or domestic, and that this was " shown in the exchanges, and in the demand for bar " gold. He was asked: —

293. 295. "On general principles what are the causes of an internal drain for gold; does it arise from money being in excess and interest being low, or does it arise from money being deficient for the purposes of the country, and interest being high? An internal drain may arise from distrust in the country, or from an increased demand caused by an increased want for the larger transactions of the country."

" Then, in these respects, an internal drain and a foreign efflux depend upon directly opposite principles? — Yes."

" Does not the Act of 1844 deal with these two things precisely in the same manner? — Yes."

" Mr. Loyd carries his views somewhat further, and, " whilst admitting the fact, seems inclined to express " an opinion which may be construed as an approval " of this principle. This will appear from the follow- " ing questions and answers: —

1376. 1450. " You consider that in its banking department, the Bank should conduct its banking business in the same way whether the drain is for foreign or for internal purposes? — I apprehend that the banking department should not look to the causes of a drain of bullion, but simply look to the state of the banking reserve."

" The principle of the Act of 1844 has reference purely to the amount of bullion at any one time as compared with another time, and has no reference to the question whether that bullion has increased or diminished by the action of the foreign exchanges or from any other cause? — The Act of 1844 substantially does not look to the causes of an increase or diminution of bullion. It merely says to the public, if you like to have the bullion coined, and to use it in that form, you shall have it; if you do not like that, and like to deposit your bullion in our cellars, you shall have the convenience of having notes in its stead."

" The conclusion to be drawn from the authorities " and evidence, cited in this and the preceding sec-

"tions is, that it is an error to deal solely with the "positive amount of bank notes in circulation, exclud- "ing the disturbing causes which may augment or "diminish the efficiency of those notes; that to apply "one identical rule to cases where the exchanges are "adverse, or are favourable, is an error likewise; "that in both these respects the Act of 1844 is de- "fective, and that in consequence of these defects it "aggravated the distress of 1847, more especially in "the months of September and October, and that it "must have a tendency to lead to the same results "hereafter whenever similar circumstances shall arise. "The Committee will conclude this branch of the sub- "ject by the following question and answer from the "evidence of the Governor of the Bank."

148. "In those cases where the demand for gold arises from an internal panic, the Bank of England is restrained in its banking operations by the Act of 1844, precisely in the same manner as it would be restrained if there was a demand upon the Bank for the foreign exchanges. Is not that likely to cause an aggravation of the evil in the case of an 'internal drain?'— That was the case in October. It is impossible to legislate for a panic. We all know that a panic is so devoid of all reason that you cannot legislate beforehand to meet it. It was for that purpose that the government issued the letter as a corrective at that particular moment."

Upon the evidence in the two preceding sections, I beg to offer a few remarks. Why should the export of the precious metals for the purchase of food occasion any pressure upon the currency? the country was relieved from distress approaching to a famine, and the foreign merchants by the export of bullion, the most convenient commodity, were relieved from the hazard of sending other commodities to doubtful or unremunerating markets: they availed themselves of the bullion,—"the international money" circulating among nations: this bullion had been imported by the Great Mercantile Republic, and was deposited in the Bank of England under an engagement to deliver it on demand. In a natural state of things there seems no reason why the export of *bullion* should have any necessary relation to the domestic currency of bank notes and coin; the bullion is required in the

foreign trade, and coin and bank notes in the home trade.

The Governor and Deputy-Governor of the Bank state (146) that "an internal drain and a foreign efflux (of gold) depend upon precisely opposite principles," and "that the Act of 1844 deals with these two things precisely in the same manner;" in action and dependence, I would make "these two things" as distinct as they are in *principle.*

There are two customers in the form of the home trade, and the foreign trade; the one dealing with coin and bank notes, and the other with bullion; the gold and silver bullion is required for the round-about foreign trade of consumption, and to pay debts abroad, where bank notes will not circulate.

By the present arrangement the quantity of bank notes for the use of the home trade is determined by the quantity of bullion required for the foreign trade; as the bullion diminishes in the issue department, the notes diminish in the banking department, under the name of the "reserve."

Why should the trade of the bullion merchant interfere with the trade of the banker? I would keep them perfectly distinct — not by a separation of departments of the same establishment, but by distinct and separate *trades;* there would then be no confusion of interests or of functions: the trade of banking would be as distinct from the trade of bullion as from the trade of tobacco, rum, or coffee; all equally merchandise.

(11.) Mr. Morris. "I consider that (the pressure) in October to have arisen from a state of panic." Did not the panic arise from the pressure? May it not be asked, who first felt the pressure, the Bank or the manufacturers and merchants? Did not the Bank transfer the pressure from themselves to the commerce of the country? Did not the Bank refuse accommodation, discount, and loan, and that with reference to their "reserve," and not to the responsibilities of the parties making the application?

The "contraction of the currency" must mean a less degree of accommodation or loan by an issue of bank notes; but the state of the exchanges, independently of the Bank Act and Bank monopoly, offers no just rule for lending or accommodating with bank notes; the wants of the merchant and manufacturer in the home trade, and the resources and responsibility of each, are quite independent of the exchanges; it is no satisfaction to the parties to be told that they cannot be accommodated because the exchanges are unfavourable; the unconditional payment of the bank note ought to be quite independent of the exchanges, and the merchants and manufacturers should have nothing to do with providing for that payment, called "the convertibility of the note," which the Committee think "would be endangered by an extension of the currency when the exchanges are adverse." This may be quite true under the *present system*, the banking department having no commodities themselves wherewith to purchase the precious metals, with which to obtain notes from the issue department.

"Sect. VI. The bank left free from responsibility "in the issuing department, and left free likewise to "manage the banking department on the principle of "a private bank."

Mr. Horsley Palmer:—

"The Bank was given to understand it had nothing to do with the circulation; that the object of the Bank was to look at the banking account alone. In making that statement, I beg to say, that I dissent entirely from that doctrine; but that was the doctrine laid down for the government of the Bank."

"And upon that the Directors have acted since the Act of 1844? —They have professed to do so."

"The same view is taken of the duties of the Bank by "Mr. S. J. Loyd, as appears by the following answer—

1414. "It was distinctly stated by Sir Robert Peel, when introducing the Act, that he left the Bank of England, in its banking capacity, untouched and uninterfered with, to manage its affairs according to its own discretion, like any other banking concern."

"On this discretion the Court of Directors have "largely acted, as will appear from the following facts."

It appears very plausible, that the issue department should simply give notes for gold, and gold for notes; but the inquiry should be made how the issue department obtained the notes, and the gold; this I have endeavoured to show; (see page 166 *antè;*) the notes are issued upon the security of a government debt, and 3 millions of exchequer bills, and upon gold which was a *borrowed* stock-in-trade, upon which I submit, no note should have been issued, for two reasons.

1st. That the gold did not belong to the Bank, and might at any time be required for the home circulation, and by the great mercantile republic. No prudent trader would borrow his stock-in-trade, and make that the foundation of his trade, and of his engagements, if he were liable to be called upon, at any moment, to restore the stock-in-trade, which he has borrowed; his stock-in-trade should be his own, or independent of all contingencies, and of all engagements: therefore no part of the notes, I submit, ought to have been issued upon the gold and silver.

2dly. The gold and silver were held as the property and at the disposal of the public, to supply the home circulation with coin; and the foreign demand for bullion for exportation; I submit, the owners of the *bullion* should themselves keep it for their own use. The *bullion* should be in the custody of the owners, as notes cannot be substituted for it for exportation.

"Sect. VII. Unexampled fluctuation in the rate "of discounts since the Act of 1844."

478. 479. 480. "The earlier practice of the Bank "of England had been to discount at a rate nearly "fixed and uniform. From 1704 to 16th May 1839, "this rate never exceeded 5 nor was less than 4 "per cent. In the pressure of 1839, the rate was "raised for some months to 6 per cent., but it was "reduced to 5 per cent. in January 1840, and re-"mained at 4 or 5 per cent. as before, till after "the passing of the 7 and 8 Vic. cap. 32. 'Prior to

"September 1844,' observes Mr. Horsley Palmer, 'the "Bank never reduced the rate of interest below 4 per "cent.; though there were occasions when the value of "money for discount of bills was as low as $2\frac{1}{2}$ per cent. "in the money market.'"

"'Your Lordships will bear in recollection, that "the years 1837 and 1839 were years of peculiar "pressure. The following table, extracted from the "evidence of Mr. Browne, exhibits the contrast be-"tween those years and 1847:—

1837	Lowest rate	$3\frac{1}{4}$,	Highest rate	$5\frac{1}{2}$,	Difference	$2\frac{1}{4}$.
1839	"	$3\frac{3}{4}$,	"	$6\frac{1}{2}$,	"	$2\frac{3}{4}$.
1847	"	$3\frac{1}{4}$,	"	10,	"	$6\frac{3}{4}$.

"He adds, 'This does not give an accurate view of "what the interest of money was in 1847, because "persons frequently paid a commission which made it "amount to 10, 20, and 30 per cent., depending on the "time the bill had to run, and the pressure of money "at the moment. The commission charged in 1837 "and 1839 was by no means to the same extent. The "Governor of the Bank states, that on the 23rd of "October, 225,000*l.* was discounted by the Bank in the "London market, at rates varying from $5\frac{1}{2}$ to 9 per "cent.'"

"The Governor of the Bank admits that such "fluctuations are of great injury to the country, but "he attributes them, not to the Act of 1844, but to "other causes."

Mr. S. Gurney states (1108):—

"The Bank in a very material degree does, in our market, govern the rate of interest. I would not say that nothing else operates upon the rate of interest, but we fluctuate inevitably according as the Bank fluctuates."

"But the Committee are far from wishing to lead "your Lordships to the conclusion, that it has been "the high rate of interest which has exclusively or "even mainly been productive of mischief in the com-"mercial world. On the contrary it appears that evil

"consequences, to the full as great, are traceable to "the periods of forced depression of interest."

"Morris and Prescott, 493." "The Bank of England "admit that the principle on which the rate of interest "is fixed, is regulated mainly by the state of the re- "serve in the banking department."

"Hence when the reserve is high, the Bank are "led to lower the rate of interest, and thereby the "commercial profits of the corporation are increased. "Such was the case up to October 1845, when the "rate of discount was at 2½ per cent., the motive "of this is stated by the Governor as follows:—

608. "'The rate was kept low for the encourage- "ment of your business as a bank, looking at the "banking department?—Our object was to employ "the reserve in the banking department.'"

The employment of the reserve by the Bank in *discounting* bills involves, in my opinion, an improper application of the *gold* intrusted to their care, and for which they had given a promise to restore it, when demanded.

The Bank was not richer for the possession of their gold, nor was it poorer when the gold was paid away. The reserve consists of the promissory notes not absorbed in the circulation, and which were received from the issue department, in return for the *gold* and securities deposited. The issue department received the gold in trust from the Bank of England, and the Bank of England had received it *in trust* from the depositors, being the property of those depositors, and of their representatives; it is not the capital of the banking department nor of the issue department.

The promissory notes should, in my opinion, be issued upon the *security* of the assets of the Bank, and not upon the basis of gold or silver, which they may have in hand.

A certain amount of gold may, indeed, be considered as a deposit, from the home trade and for the use of the home trade, when that gold which would otherwise remain in the different coffers of merchants

and tradesmen, is transferred to the Bank, either for safe custody, or to be drawn out as the occasion may require; but that sum is not the fluctuating "reserve" which is contemplated, when it is said that the "reserve" of the bank is large or small; this difference of amount always alludes to the fluctuating sum *beyond the wants* of the home circulation, and this fluctuating amount properly forms the "international money," or "most convenient commodity," of the great mercantile republic; the *bullion* circulating among nations cannot properly be applied by the Bank to the wants of any particular country, and much less should its greater or less amount form any ground for stimulating or depressing commerce and industry.

There can be no doubt that a low rate of interest will have the effeet of stimulating speculation.

" The following evidence is given by Mr. Tooke:—

3088. 3089. " Do you think that that very great reduction in the rate of interest had the effect, during its continuance, of giving a great stimulus to the speculation which then took place, and to the system of trading which was then going on, on the part of certain parties?"

"Whenever there exist motives to enterprise, whether in the shares of Joint-Stock Companies, or in investments of any kind at home or abroad, a low rate of interest tends very considerably to promote and extend the tendency to speculation." "Do you think that it had that effect at that period? — I think it had."

"Sect. VIII. Rates of discounts of the Bank of " England, and the Bank of France compared."

"Several of the witnesses examined, have drawn a " comparison between the operations of the Bank of " England and the Bank of France."

" The Committee had on this subject the benefit of " the experience and knowledge of the late Lord " Ashburton, whose loss the Committee have had " reason to lament, in common with his friends, and " with his country."

3324. Lord Ashburton had stated:—

" The transactions of the Bank of France may be said to have varied very little indeed from the limits of four to five per cent.; they never exceed five, and they have hardly ever been under

four. Under all circumstances they have kept that equable rate of interest for their discounts, and for their general transactions. I should state that the discounts of commercial paper by the Bank of France, so far from being insignificant, as has been intimated, are in reality very large. I take it, that, upon the average of years, the discount of commercial paper by the Bank of France is larger than the discount of commercial paper by the Bank of England."

The example and experience derived from the management of the Bank of France form a strong argument in favour of a more equable rate of interest; it has been stated that monetary convulsions are less frequent in France than in England, and are of less duration and intensity. The real question, I would submit, is, whether the Bank of England should retain so much power over the money market, and any power over prices; whether its influence should not be diminished by lessening its sphere of monopoly, or substituting entirely banks subject to competition; and whether the custody of the gold and silver required by the great mercantile republic, should not be retained by the owners: they would individually supply the Bank of England and other banks with bullion, when not wanted for their own commerce, when required as coin for the home circulation; instead of the Bank of England distressing commerce and lowering prices to obtain it, the power and resources of the Bank of England, and of all banks, should be reduced to that scale that they could not lower prices generally by distressing commerce. As the Bank of England issues promissory notes upon securities and bullion, and the circulation constantly exceeds the sum of 14 millions issued upon securities, the Bank of England always discounts with gold. I submit that the circulation might be supplied, as the wants of the country would require, by notes of different banks.

"Sect. IX. Errors in the Bank management in "1846, 1847."

"The Committee have shown what unexampled "fluctuations in the rate of interest unfortunately "occurred in 1847, and the causes to which those

"fluctuations are attributable in the judgment of "many of the witnesses. In the minds of several of the "parties examined, the conduct of the Bank itself, in "the (607) exercise of its discretion, has been on other "grounds objectionable. For a considerable time the "rate of discount was kept as low as (608) 2½ per cent., "the admitted motive being to employ profitably the "reserve in the banking department, looking to it as "bankers would do, when desirous of retaining a "(599) certain amount under discount. The bank "rates of discount in the autumn of 1846 continued "at 3½ per cent., till the (605) 9th of January, 1847; "they were then raised to 4 per cent., and to 4½ per "cent. on the 16th of January; whilst an adverse ex-"change had been in operation from the 14th of "November, 1846, and large importations of grain "were expected from America. The Governor of "the Bank, being examined with respect to the hesita-"tion and delay exhibited in raising the rate of dis-"count under such circumstances, answered:—

601. "I have no hesitation in saying that I think the Bank would have acted more prudently if they had put it up sooner."

605. "You say that it would have been more prudent on the part of the Bank looking at the exchanges at that time, to have raised the rate of discount sooner?—Yes, I think so, looking also at the probability of a large amount of importation from America."

"The same opinion is expressed by Mr. Gurney, "who observes:—

1171. 1172. "It is my opinion that they continued to advance money at a low rate of interest too long."

"When you say 'much too long,' do you mean for their own interest, or for the good of the community?—For the good of themselves and for the good of the community. But it is extremely easy to look back and come to such a judgment, but not always quite so easy to look forward and judge correctly."

"Of all the witnesses examined before the Com-"mittee, Mr. Loyd gives the most unreserved opinion "with respect to the errors of the Bank management. "His evidence on this point is so precise and definite,

"that the Committee insert it at length, as deserving "of particular attention."

1353. 1360. 1362. "The course pursued by the Bank from January to April 1847, which I apprehend to have been extremely erroneous and detrimental to the public interest, was stopped only by the positive provisions of the Act; and if that system of procedure had not been stopped it must have ended in the most disastrous consequences. I think there is a very strong ground for charge against the Bank. In the beginning of January, the total securities were 27,898,000*l.*, and on the 10th of April, they were 31,700,000*l.* There was from January to April a very large increase in the total amount of advances by the Bank upon securities, notwithstanding that during that period there was a very serious diminution of its bullion. This includes the private securities, which are the more important to look at, because the advances upon Government securities are less within the control of the Bank. It is in regulating the advances upon the private securities that the discretionary power principally exists. The Bank continued to increase their advances upon private securities while there was a continuous drain upon the bullion."

"It should, however, be kept in mind, that by the "separation of the two departments, as has been "already shown, the Bank considered that the respon-"sibilities under which they had previously acted, "were to a considerable extent removed; and that as "bankers, they were left to the mere consideration of "their private interests. In the case referred to, it "would seem manifest that the want of timely pre-"caution could not fail to have aggravated the in-"tensity of the subsequent pressure in April, to the "great loss of the public, and the embarrassment of "the Bank itself. In no case is it more true than in "the conduct of a bank, that not only should an ap-"propriate remedy be adopted, but that it should be "adopted at the fitting time, delay, in most cases, "rendering more severe measures indispensable."

The Governor of the Bank, and Mr. Gurney and Mr. Loyd, express themselves dissatisfied with the conduct of the Bank. Mr. Gurney very considerately adds, "But it is extremely easy to look back, but not always quite so easy to look forward and judge correctly." The Committee also observe, that by the

separation of the two departments, the Bank considered that, "as bankers, they were left to the mere "consideration of their private interests."

To check the importation of food by high interest, might have been thought at the time equally prejudicial to the country and to the Bank.

The Committee conclude, "In no case is it more true "than in the conduct of a bank, that not only should "an appropriate remedy be adopted, but that it should "be adopted at the fitting time, delay in most cases "rendering more severe measures indispensable."

The question arises whether the remedy is "appropriate?"

Does it not occur that the interference of the Government or of any national bank to interrupt or withhold the supply of the precious metals, required for the purposes of international commerce, will produce the same disastrous effects on foreign commerce, as the withholding the needful supply of promissory notes will produce on the domestic commerce? The bullion is the ready money or prompt payment of foreign bills, as bank notes or coin are the prompt payment of bills due in this country; should any control over either be exercised according to the state of the exchanges; should not both be free from all Government or Bank control?

This involves the inquiry, whether competition of issue by different banks will not secure the proper quantity of notes required by the wants of the community more effectually, and more safely than the discretion of a national bank, or the wisdom of the legislature, and whether the national bank should be the guardian of the international merchandise or bullion.

Mr. Gurney says, 1171, 1172, that the Bank continued to advance money at a low rate of interest too long "for the good of themselves and for the good of the community."

Is it not equally inconsistent that a "community" should depend upon a national bank, and that "se-

vere" measures should be exercised by any bank towards a "community"?—

The management of the Bank of England must be considered in connexion with the Bank Act of 1844—and if the restriction imposed by that Act were repealed, it should then be considered in connexion with its monopoly, and if that ceased, in connexion with its magnitude and influence—and, I submit, how far these conditions should be modified.

"Sect. X. Question of advances on deficiency bills."

"It is scarcely necessary to state that such advances are made at the commencement of the quarter, whenever the public balances are insufficient to meet the demands on the Consolidated Fund, and that these bills are subsequently paid off out of the growing revenue as it is received at the Exchequer. There have been occasions on which the quarter's revenue has been insufficient to meet these engagements, which are in such case carried on further, additional bills being issued for supply services. On these advances the payment of the dividends, and consequently the maintenance of the public credit, may to a considerable extent depend; and any interruption to the punctual performance of these engagements would be attended with the most serious consequences."

The Committee infer from the evidence of the Governor of the Bank, (360, 362, 365,) and from the evidence of Mr. Loyd, (1624); of Mr. Norman, (2751, 2752); of Mr. Cotton, (3259); and of Mr. Browne, of Liverpool, (2400)—

That "the effect would have been, that, had deficiency bills been required in October 1847, the amount of accommodation then given to commerce must have been either considerably lessened in amount or limited in duration."

Their Lordships conclude: "Even conceding that no peril to public credit would ensue from the state of things described, it is easy to suggest many cases

"in which an adherence to the strict rules of the Act "of 1844 would be most difficult, if not impossible, "except by resorting to measures which, in periods of "internal drain, would seriously affect private credit, "and cramp forcibly the operations of the Treasury "and of the Bank of England."

There can be no doubt that "private credit" and "the operations of the Treasury" ought to be independent of the Bank of England; and the operations of the Bank of England and of all banks ought to be independent of the operations of the Treasury. Private credit depends upon private property, and public faith upon the payment of taxes. Would it be impossible to avoid the necessity of "deficiency bills" altogether, or to separate them from the Bank of England? It is stated by Lord Ashburton, in his evidence respecting the Bank of France, given in the Appendix, 3338: "Do they pay the dividends on the French rentes?—No, they have nothing to do with the dividends."

"Sect. XI. Limitation of the amount of silver by "the Act of 1844."

"The limitation of the amount of silver bullion, "which the Bank is entitled to hold under the Act of "1844, has been complained of by many of the "witnesses, whether their opinions are favourable or "adverse to the other provisions of the Act. Cases are "stated in which the export of silver has been made, "and may be made in future, the means of rectifying "an unfavourable foreign exchange. Such is the "opinion of the Governor of the Bank."

342. "I consider silver quite as available a means for the convertibility of the note as gold. We have been limited to keeping one-fifth of our amount of bullion in silver. I think that limitation is too restricted. The silver can be readily sold in the market, and bank notes obtained for it. There is no merchandise that will sell easier than silver. By dropping a fraction in price, we could get bank notes out of the market immediately."

The Governor appears to confine his view to silver

being the means of securing the convertibility of the note, by rectifying the exchanges. "By dropping a "fraction in price we could get bank notes out of the market immediately." This is quite in accordance with the principle of the Bank Act, as expounded by Sir Robert Peel. The demand for gold is made to cease "by getting bank notes out of the market." Is it intended to convey that, whether bank notes are withdrawn from circulation, by a sale of marketable "merchandise," or whether they are paid in gold at the Bank, the promise of the note is equally fulfilled?

Convertibility does not here mean *payment.* The convertibility or "ability to pay," in case of payment being demanded, is to be secured by the immediate withdrawal of bank notes from the circulation, by a shock to credit, by a pressure upon the money market, more or less severe, according to the amount of the "reserve," or bank notes, in the banking department; by this means checking commerce, lowering prices, and in case of necessity, to such a degree, that the produce and manufactures, *the property of others,* shall be substituted for exportation, in preference to the bullion in the issue department.

Mr. G. C. Glyn places in a striking point of view the inconvenience attending the present limitation of the amount of silver:—

1286. 1287. "Merchants from the Pacific, whose returns are very much in silver bullion, found when it arrived last spring that there was no market for it here, and they had to send it over to Paris for returns in bills of exchange, and when they came back there was a difficulty in discounting. The interval lost, which is about six weeks, is a very serious thing to a mercantile house; and there is another evil in it; supposing the amount of bullion held in the issue department to be in the exact proportions allowed by the Act, with one-fifth silver, and supposing that 400,000*l.* of notes go in taking the same amount of sovereigns out, that immediately alters the proportions, and the issue department must necessarily sell silver bullion to keep the proportions right, and thus reduce the circulation another 100,000*l.* to keep up the proportion."

"Did you not hear of a case in which a merchant with a large amount of silver bullion was unable to obtain advances upon it?—Decidedly. He could not either obtain an advance upon it or sell it."

"In expressing their entire concurrence in these "opinions, it is scarcely necessary that the Committee "should observe that no question of alteration of "standard is involved in them, nor do they counte-"nance such an alteration of the law as would render "the coined silver of the realm, depreciated as it is, "compared with the mint price of silver, available, "by tale, in payments beyond a restricted amount."

The amount for which silver coin may be a legal tender in the payment of debt, may be determined by convenience, as long as the light silver coin is rated by law to exchange with the sovereign at the rate of 20*s*. to the sovereign, and *the State retains the sole privilege of coining silver*—the restriction to forty shillings was probably fixed, at the time of the resumption of cash payments by the Bank of England, on account of the one and two pound notes, then in circulation; of this I have written, p. 16, *antè*.

The coined silver is not "depreciated compared with the mint price of silver," as in our coinage there is no mint price of silver; we have no mint price either of gold or silver: the ounce of gold is divided into portions, the sovereign and its fractions; and a rate is fixed by law for the exchange of the silver coins with the sovereign — both the silver and gold coins are equally valuable relatively to *commodities;* but they have no *price* among themselves, the silver coin being only *rated* and not *valued.*

"Sect. XII. Publication of the Bank accounts, in-"cluding the reserve of notes in the banking depart-"ment."

"Several of the witnesses examined have attributed "the pressure felt in 1847, and the panic which suc-"ceeded, to the publication of the accounts in the "manner prescribed by the Act of 1844. The Go-"vernor of the Bank states:—

6. "I may state, with reference to that part of the Act which relates to the banking department, that probably the necessity which the Bank were under of publishing their reserve of notes,

had an effect upon the public and caused alarm in April; and I believe that that was one of the causes that created the alarm at that time. The dividends had just been paid, and consequently the reserve was at a low figure, I think about three millions and a fraction. The public were alarmed at that amount, not considering that at that period the reserve goes to its lowest point, and that in consequence of the revenue coming in, it would have continued to increase but for the publication which caused the alarm."

184. "I do not wish to be misunderstood. I do not object to any publication of the Bank's accounts, except our banking reserve. I think it is right that every thing else should be put before the public, but it is a question whether we ought to be bound to publish our banking reserve, more than any other bankers in London; and I stated, at the period when it was proposed, that my impression was, that we might sometimes feel inconvenience from it, because the public would be naturally looking to it; and there might be periods when from peculiar circumstances our banking reserve might be low. We, knowing that a turn had taken place, might know that it was safe, and yet the public might be alarmed."

" Mr. Tooke was examined likewise on this point to " the following effect:—

3144. "What is your opinion respecting the publication of the Bank accounts?—I think it is inconveniently frequent. I do not know any advantage from it."

3145. "You think it promotes panic and alarm?—Certainly, at periods when the Bank reserve, as we have seen, has been greatly reduced, especially at the dividend periods."

"On this evidence the Committee feel it their duty "to make a few observations. In the judgment of "both of these witnesses, the danger which they ap- "prehend arose in 1847, from the publication of an "account of the Bank reserve, when that reserve was "unusually low; and to this publication, alarm, which, "as it is shown, rapidly passed into panic, was "traceable. The same effect might consequently be "apprehended hereafter, under similar circumstances. "This alarm and panic originated in the restriction, "which prohibited any aid being given from the issu- "ing to the banking department, at a time when the "former held a large amount of bullion, and when "the foreign exchanges were favourable."

"The suggestion made by the Governor of the

"Bank, of publishing the whole accounts with the "exception of the reserve, appears wholly inadmissible. "Such accounts must practically furnish the elements "or data from which the amount of reserve may, with "a greater or less degree of accuracy, be deduced or "inferred. If the amount of reserve could thus be "accurately calculated, the proposed remedy would "be no corrective of the system complained of. If "the amount of reserve were to be inferred inaccu-"rately, such a proceeding would be an aggravation "of the inconvenience rather than a safe or effectual "remedy.

"It would appear more in accordance with legis-"lative wisdom to reconsider the rule itself, against "which there can hardly be stronger presumptive "evidence, than the suggested necessity of concealing "the consequences to which it leads."

The Governor of the Bank and Mr. Tooke concur in opinion, that the publication of the Bank accounts may create alarm, and promote panic when the reserve is low.

The Governor suggests that the accounts may be published with the exception of the reserve; to this the Committee object, as the public might draw erroneous conclusions from these accounts with respect to the reserve.

It should be recollected that the accommodation afforded by the Bank to the community is greatly dependent upon the amount of the reserve, and it therefore appears to be quite right, and essential, that the greatest publicity should be given to it; that the trading community may act accordingly; that every merchant, manufacturer, tradesman, agriculturist and labourer, may be able to consult this important document, and be prepared for any impending danger.

I find that an amendment was moved, but not carried, in the Bank Committee of the House of Commons, very much to the purport of the last remark.

"Sect. XIII. Remedial measures recommended by "the witnesses."

"The Committee feel, in common with every witness "examined, the duty and obligation of maintaining at "all times the practical convertibility of the bank "note. This they consider to be the first and most "essential object, which, in all discussions like the "present, must be kept constantly in view, both by "the legislature and by those who direct the banking "operations of this great commercial community. "Upon the practical enforcement of this principle, "not only does public and private credit depend, but "the whole industry of the productive classes, and "the wages of labour. On this point, therefore, "the Committee have the satisfaction to think that "there can be no difference of opinion. The prac- "tical questions to be settled at present are, whether "this great benefit is attained with certainty; whether "it is attained by proper means; and whether the re- "strictions of the Act of 1844 are not attended with "grievous and unnecessary evils of a collateral kind. "Many of the provisions of that Act are, in the judg- "ment of the Committee, as well as in the judgment "of the great majority of the witnesses, judiciously "adapted to the purpose for which they were framed. "But an attempt to enforce by law, under all circum- "stances, one fixed and inflexible rule for the manage- "ment of a national bank of issue seems inconsistent "with the best written authorities, with the general "principles of economical science, as well as with the "testimony of many witnesses of practical knowledge "and experience. It can hardly fail to be productive "of most serious evils, more especially when a con- "traction of issues, indispensable in a state of adverse "foreign exchanges, is rendered imperative, as it is "by the Act of 1844, under circumstances which may "be wholly opposite. It has been shown that an en- "largement of the issues of the Bank under a favour- "able foreign exchange, would frequently be expedient "at times, when, under the provisions of the Act, no

"such enlargement would be possible, and even in "cases where by the Act a compulsory contraction "would be enforced.

"Sir Robert Peel's letter read by Mr. Cotton (3284.) "justifies the inference that, in his opinion, circum- "stances will occasionally arise when these restric- "tions must be suspended by an arbitrary act of "authority.

"The Governor of the Bank expresses a still more "distinct opinion that such contingencies will not be "unfrequent. His evidence is as follows:—

150, 151. "You have stated that a foreign demand for gold and a domestic demand for gold, are different and distinguishable things in their banking consequences. The Act of 1844 deals with those two different causes precisely in the same manner. Do you think that is right? — Yes, I do."

"On what ground? — When I say that I think it is right, I think that you could not make provision in the Act for an exception like that of a panic which may arise once in five or six years, or not even that."

"To leave these cases, when they do arise, to be "dealt with by the irregular exercise of the mere "authority of the Crown and its advisers, setting aside "'once in five or six years,' or even at periods more "remote, the express provisions of a distinct statute, "appears wholly inconsistent with that fixity and "order which it is, or ought to be, the object of all "law to secure. The evidence of Mr. Horsley Palmer "(779—792.), Mr. Gurney, (1166. 1202. 1226.), as "well as that of many of the other witnesses, is most "material as illustrative of these truths.

"Two suggestions have been made to the Com- "mittee; the one an absolute repeal of the Act of "1844; the other a continuance of the Act, accom- "panied by a power of relaxation. Believing that "many of the provisions of that Act are judiciously "adapted to secure the primary object of the conver- "tibility of the bank note, and viewing the great "balance of evidence which has been given in favour "of the second of these alternatives, it is to that pro- "position that the Committee are desirous of directing

"the attention of your Lordships. It is true that to "those who may have expected that the 7 and 8 Vict. "c. 32. would effectually prevent a recurrence of "cycles of commercial excitement and depression, "the contrast between the years 1845 and 1847 must "produce a grievous disappointment. To those who "anticipated that the Act would put a check on im- "provident speculation, the disappointment cannot be "less, if reliance is to be placed, (as the Committee "are confident it may), on the statement of the Gover- "nor of the Bank (525.), and of other witnesses, that "'speculations were never carried to such an enormous "'extent, as in 1846 and the beginning of 1847.' If "the Act were relied on as a security against violent "fluctuations in the value of money, the fallaciousness "of such anticipation is conclusively proved by the "fact, (2308.) that whilst the difference between the "highest and lowest rate of discount was in the "calamitous years 1837 and 1839, but $2\frac{1}{4}$ to $2\frac{3}{4}$ "per cent., the difference in 1847 rose to $6\frac{3}{4}$. If it "was contemplated that the number and the extent "of commercial failures would have been lessened, "the deplorable narrative of the Governor of the "Bank, recording the failure (112.) of thirty-three "houses comparatively in large business, in London "alone, to the amount of 8,129,000*l.* is a conclusive "reply. If the enormous extent to which railroad "speculation has been carried be considered as an "evil to which a sound system of banking could have "applied a corrective, such a corrective has not been "found in an Act, since the passing of which, during "a period of three years, an increased railway capital "of upwards of 221,000,000*l.* has been authorised "to be raised by Parliament; and when the enormous "sum of 76,390,000*l.* is stated, on high financial au- "thority, to have been actually expended on railways "in two years and a half. If the power of obtaining "banking accommodation on moderate terms, were "considered to be promoted by the Act of 1844, it "cannot be said that this important object has been

"attained, since it appears in evidence (3303.) that "in 1847, in addition to an interest of 9 or 10 per "cent., a commission was also frequently paid, raising "the charge to 10, 20, or 30, per cent., according to "the time which bills had to run. The Committee "are fully aware that alternations of periods of com-"mercial excitement and of discredit, of speculation "and of collapse, are likely to arise under all systems "of currency; it would be visionary to imagine that "they could be averted altogether, even if the cir-"culation were exclusively metallic. But it is on this "account that greater care should be taken to avoid "increasing an evil, perhaps inevitable, by any arbi-"trary and artificial enactments.

"The Committee are of opinion that the principle on "which the Act of 1844 should be amended is the intro-"duction of a discretionary relaxing power; such power, "in whomsoever vested, to be exercised only during "the existence of a favourable foreign exchange."

"Several plans have been suggested by which such "a relaxing power may be exercised, but they resolve "themselves practically into three,—a legalised au-"thority, vested in the Government; in the Govern-"ment and the Bank conjointly; or, in the Bank of "England alone."

Their Lordships are of opinion that this discretionary power should be vested in the Bank alone, at the same time suggesting an alteration in the system of election of Governors and Deputy-Governors. Their Lordships observe: "The objection obviously "existing to the first of these propositions is, the "danger that all governments are liable, more or less, "to be influenced in such cases by political rather "than by economical considerations. It may also be "apprehended that the exercise of an undefined and "extraordinary power would depend too much on the "personal character or the political position of the "Minister for the time being. The second proposi-"tion is open to other but equally powerful objections. "A divided responsibility becomes frequently no

" responsibility at all. The Government might cast " the responsibility on the Bank, the Bank on the " Government, and in this conflict the interests of the " public would be forgotten or defeated."

" It seems further to be apparent from the evidence, " that the immediate pecuniary interests of the pro- " prietors as a trading company may at times super- " sede or control larger and higher considerations. " This ought not to be. Whilst the Committee ex- " press this opinion, they must guard themselves from " the supposition that they consider that the Bank " ought to undertake or can perform functions which " belong to the legislature and to the responsible " government. The first duty of the Bank of England " is, so to conduct its affairs as to secure means for " the performance of all its engagements with integ- " rity and good faith. Prudence and discretion, the " application of scientific truth to assist, and, at times, " to correct the inferences drawn from experience " should be its guiding principles; but no narrow " views of the mere pecuniary interests of its proprie- " tary should exclusively control its action. To the " Bank of England, Parliament has confided great " privileges and exclusive powers; for the exercise of " these powers the Bank is responsible. In these re- " spects the Bank of England differs from an ordinary " trading corporation; and, consequently, is bound " always to keep in view the real and permanent in- " terests of the commercial classes, and of that great " community of which it forms a part. The true " interests of the proprietors of Bank Stock can never " be prejudiced by being considered in connexion with " these larger principles."

" If the Committee considered that the Act of 1844, " which they desire to see amended so far as its restric- " tive clauses are concerned, was essential to the prac- " tical convertibility of the bank note, they would " hesitate in recommending any change. But it " should never be forgotten that the liability of the " Bank consists in its deposits, as well as in its promis-

"sory notes. The legal obligation to discharge both "is the same, the failure of either would be equally "fatal. The protection given by the Act of 1844 is "mainly given to the bank notes, and in some degree "at the risk of the deposits."

"Before the Committee close their Report, which "the extreme importance and complexity of the sub-"ject referred to them, as well as the value of the "evidence taken, has rendered necessarily protracted "and laborious, they feel it right to admit, that the "conclusions to which they have come are opposed "by the evidence of witnesses of ability and of ex-"perience, and entitled, on both accounts, to respect "and consideration."

The Committee then cite the evidence of the Governor of the Bank; of Mr. S. J. Loyd; of Mr. George Norman; and of Mr. Cotton, who express their approbation of the Act of 1844.

"In conclusion the Committee think it right to add, "that, whilst they feel deeply the necessity of a sound "system of legislation for the Bank of England, and "for all other establishments entrusted with the pri-"vilege of issuing notes used as substitutes and re-"presentatives of the current coin of the realm, they "are far from suggesting that it is upon laws, how-"ever wisely framed they may be, that reliance can or "ought exclusively to be placed. The best banking "system may be defeated by imperfect management; "and, on the other hand, the evils of an imperfect "banking system may be greatly mitigated, if not "overcome, by prudence, caution, and resolution. In "the confidence universally and justly placed in the "Bank of England, the fullest testimony is borne to "the integrity and good faith with which its great "transactions have been conducted; and the opinion "of the Committee in this respect is best shown in their "desire to see vested in the Bank, a wider discretion "than they possess under the Act of 1844,—a discre-"tion which the increased knowledge produced by ex-"perience and discussion, and in which the Bank of

"England can hardly fail to participate, will enable "them to exercise to the advantage of their own cor-"poration, to their own honour, and to the permanent "benefit of the public, and more especially of the "commercial classes of England."

"Sect. XIV. Effects of the Acts of 1844 and 1845 "on Scotland and Ireland."

"The Committee have felt it their duty to examine "witnesses connected with Scotch and Irish Banks. "As the great bulk of Scotch and Irish pecuniary "transactions are adjusted in reference to the London "money market, so long as the bank notes issued in "the three parts of the Empire are equally conver-"tible on demand into the same coin, 'the fluctuations "'of exchange between the countries will be generally "'limited by the price at which any given amount of "'bullion can be procured in the circulating medium "'of the debtor country, and converted into the cir-"'culating medium of the creditor country, together "'with the insurance and charges of transporting it "'from the one to the other.'" *

"It follows that any effects which the Act of 1844 "has produced upon the London market, must have "had a corresponding influence in Scotland and "Ireland. To those countries, and to this extent, all "the foregoing observations of the Committee apply."

The Committee express their opinion that the obligation imposed upon the Scotch banks, by the Act of 1845, of keeping "a stock of gold corresponding in amount with the excess of circulation, beyond the maximum fixed by the banking returns," is not required to guard against "excess of issue:" they consider the system adopted by the Scotch banks of making exchanges twice a week, and settling the balance by the payment of exchequer bills or by letter of credit on London, a sufficient guarantee against any over-issue. "Thus every bank must be prepared

* Bullion Report, 1810; Report on Irish Exchanges.

twice a week to retire its excess of notes, and must keep funds in London for that purpose."

"On the other hand, supposing that there should "ever arise, the formidable danger of a discredit of "the bank note—an event, however, which has never "occurred—there are manifest advantages in the "more general diffusion of gold coin, as a security for "convertibility, in Scotland and Ireland as well as in "England. If this were not provided for, the diffi- "culties of such an exigency would be considerably "and locally increased, and the pressure on the Bank "of England would be increased likewise.

"No complaint seems to have arisen in respect to "the operation of the Act of 1845 as regulating Irish "banking."

The preceding extracts from the Report of the Committee indicate their Lordships' opinions respecting the Bank Act of 1844: they suggest that a discretionary power should be vested in the Bank Directors to suspend the restrictive clause of the Act, "to be exercised only during the existence of a favourable foreign exchange;" and that an alteration should be made in the constitution of the Bank of England.

Their Lordships do not object to the separation of the departments. The Committee observe, "The first duty of the Bank of England is, so to conduct its affairs as to secure means for the performance of all its engagements with integrity and good faith. Prudence and discretion, the application of scientific truth to assist, and, at times, to correct the inferences drawn from experience should be its guiding principles; but no narrow views of the mere pecuniary interests of its proprietary should exclusively control its action."

It is not said to whom the Bank of England is responsible for the exercise of its "great privileges" and "exclusive powers."

As the Bank of England differs "in these respects from an ordinary trading corporation," and "is bound

always to keep in view the real and permanent interests of the commercial classes, and of that great community of which it forms a part"—it would appear inconsistent to apply to this establishment the same rules and principles, and responsibilities which apply to other trading corporations.

It will be seen by the first paragraph of this section, that their Lordships consider, that "the practical questions to be settled at present are, whether the great benefit of the "practical convertibility of the bank notes is attained with certainty," and "whether it is attained by proper means." Their Lordships consider that, "upon the practical enforcement of this principle, not only does public and private credit depend, but the whole industry of the productive classes and the wages of labour."

Those who think that these great interests, these elements of national prosperity, should depend upon the conduct or management of a national bank, will reason in one way; and those who think that "private credit" should be a personal adjunct, depending upon the "fortune, probity, and prudence" of the individual; that "public credit" should rest upon the credit of the Government, upon its ability to meet its engagements, upon its power to raise a sufficient revenue; that "the whole industry of the productive classes" should rest upon security of property; and that "the wages of labour" should depend upon capital and the demand for labour; that all these individual and national interests should be independent of the prudence and discretion of a national bank, will reason in another way.

The Committee observe: "It seems further to be apparent from the evidence, that the immediate pecuniary interests of the proprietors as a trading company may at times supersede or control larger and higher considerations. This ought not to be. Whilst the Committee express this opinion, they must guard themselves from the supposition that they consider that the bank ought to undertake, or can perform,

functions which belong to the legislature and to the responsible government."

If the Committee concede, as is implied at the conclusion of Sect. IX., that the Bank has the power and the great "privilege" of applying pressure "severe measures" to commerce, in order to regulate or control its action, does not the Bank undertake and perform a function which does not "belong to the legislature" or to "the responsible government," a function beyond the power or privilege of either, and should this be permitted to the Bank of England? It appears to me that the duty of the legislature and of the government is to enforce the payment of the debt and the performance of the promise or contract, and that their duty extends no further: the duty of those who contract the debt or make the promise is to pay the debt; and the duty of those who direct the operations of a banking company is to take care that they have funds to meet their engagements from their own resources. It will be conceded, I conclude, that the magnitude of an establishment does not alter the moral obligation incurred by a promise or a contract.

The "practical enforcement" of "the duty and "obligation of maintaining at all times the practical "convertibility of the bank note" is a novel mode of expression, and has been introduced since "science" was made to bear upon the question: a more simple expression would be "payment of the bank note enforced by law." It would sound harsh, if applied to a promise to pay two or three months after date; it would be extraordinary for a merchant to say that he had secured the "practical convertibility" of his bill. Is the debtor to exercise this "practical enforcement" or the creditor? Is not the Bank of England the debtor, and does not the debtor exercise the "enforcement," not upon his own resources to discharge his liabilities, but upon the resources of those who are engaged in commerce and of those who may have had nothing to do either with the creditor or the debtor? —is "practical" substituted for "legal" by the sup-

porters of the new system, because the Act of Parliament enforces by *management* what the *Law* in other contracts would enforce by penalties?

It would be very desirable to have the nature of "the great privileges and exclusive powers," and of "scientific" truth, as applied to the operations of the Bank, clearly explained and defined: that all engaged in commerce may understand their position relatively to the Bank of England.

The advocates of the new philosophy, founded upon the "progress which this science, like all other sciences is making," magnify the importance of the Bank of England beyond its due proportions. They assume that the existence of the Bank of England is essential to the prosperity of the country, and that a suspension of cash payments must necessarily be followed by a Bank restriction; their Lordships must contemplate a Bank restriction making the bank note a legal tender, and therefore subject to depreciation and all its sad consequences, when they state that upon the "practical convertibility" of the bank note depend "the whole industry of the productive classes and the wages of labour;" these results could only proceed from making the bank note a legal tender. If such fatal consequences attend a Bank restriction, it is an argument that it ought *never* to be imposed; and it is also an argument that no bank should be of such magnitude, as by its failure, to involve such disastrous consequences and an alteration of the standard of value.

Mr. Huskisson observes (Sect. IV.) "the preservation of the bank from actual failure, though an important, is but a secondary consideration; that of the country is the first."

Lord Ashburton, p. 9, observes*: "In speaking of the condition of the Bank, the only point really worth considering is the entire state of its relative assets and liabilities: it is in this manner that the

* The Financial and Commercial Crisis Considered, 1847.

powers and capabilities of the Bank of England — as, indeed, of all other banks in the world — have ever been estimated, with a view of judging its means of performing the functions for which it was instituted, which require that it should, above all, maintain the integrity of its engagements."

The credit of this country rests upon the solid foundation of property and character; the credit of the Bank of England rests upon the same solid foundation. If the Bank of England were to suspend its payments, a very calamitous event, and it could be satisfactorily shown that the property and integrity of the Bank were intact, that it still had the power and inclination to satisfy all demands with an immense overplus, its credit would be re-established: this happened in 1745, and in 1797, when the merchants, bankers, and others, determined to support the Bank by taking their promissory notes in payment of debt.*

The Committee observe, "The protection given by the Act of 1844 is mainly given to the bank notes, and in some degree at the risk of the deposits."

Neither the silver nor the gold, be it remembered, is the property of the Bank. Is it consistent with justice to press upon commerce, to check credit, in order to obtain the bullion that may be supposed needful to insure the payment of the Bank of England note? Is the instrument of commerce in the foreign trade to be sacrificed to the instrument of commerce in the domestic trade?

Is it not most desirable to separate the bullion required for the foreign trade from the bank notes and coin required in the home trade?

It appears to me that the Bank of England is placed in a false position, resulting from the union of the international treasury with the national bank — from blending together the bullion of the great mercantile republic with the domestic circulation of the country — from making the same corporation the storekeepers

* Francis's History of the Bank of England, v. i. pp. 162. 241., London, 1848.

of the one, and the bankers for the other; an entire separation of the two functions, and of the two interests, appears to me the appropriate remedy.

That remedy must be applied by the *merchants* themselves, under the sanction of law — the foreign merchants, or separate commercial establishments engaged in foreign commerce keeping their own bullion; not collectively in a common fund, but individually or separately: as a bullion bank, it might exercise the same rule over commerce as is now exercised by the Bank of England.

If the present system involves injustice, it should be abandoned: with injustice there can be no compromise.

With all respect and due deference to their Lordships, I submit these observations and opinions, which will conclude with an extract from the "Commentaries" of a celebrated judge: —

"Considering the Creator only as a being of infinite *power*, he was able unquestionably to have prescribed whatever laws he pleased to his creature, man, however unjust or severe. But as he is also a being of infinite *wisdom*, he has laid down only such laws as were founded in those relations of justice that existed in the nature of things antecedent to any positive precept. These are the eternal, immutable laws of good and evil, to which the Creator himself in all his dispensations conforms; and which he has enabled human reason to discover, so far as they are necessary for the conduct of human actions. Such among others are these principles: that we should live honestly, should hurt nobody, and should render to every one his due; to which three general precepts Justinian has reduced the whole doctrine of law. *Juris præcepta sunt hæc, honestè vivere, alterum non lædere, suum cuique tribuere.* Inst. 1. 1. 3." — Blackstone's Commentaries: Introduction, Section 2.

CHAP. XXVII.

THE REPORTS FROM THE SECRET COMMITTEE OF THE HOUSE OF COMMONS, WITH SOME OBSERVATIONS ON THE REPORTS, AND ON THE EVIDENCE.

FIRST REPORT.

"The Secret Committee 'appointed to inquire into the causes of the recent Commercial Distress, and how far it has been affected by the laws for regulating the issue of bank notes payable on demand,' and who were empowered to report from time to time to The House; — Have taken the subject fully into their consideration, and have agreed upon the following Report: —

"In obedience to the order of the House, Your Committee have inquired into the matters referred to them, and having concluded their investigation so far as relates to England, have thought it advisable to report to The House their opinion on this branch of the subject, together with the evidence.

"To complete the labour entrusted to them, the inquiry must be extended to Scotland and Ireland, and the Committee will proceed on this duty without delay.

"During the period of difficulty, deputations from Liverpool and Birmingham had communicated with the Government. Your Committee, therefore, thought it best to commence their inquiry by examining Mr. Hodgson and Mr. Turner from Liverpool, and Mr. Muntz and Mr. Salt from Birmingham.

"Mr. Gurney, an eminent bill-broker; Mr. Bates, of the firm of Baring Brothers; and Mr. Beavan, a London banker, and selected by the London bankers, were examined by the Committee, more especially with respect to the distress and difficulty which had been experienced in the metropolis.

"Mr. Birkbeck, a private banker, selected by the country bankers, and Mr. Pease, connected with the Northern Coal Districts, were also examined in the course of our investigations.

"Full evidence respecting the proceedings of the Bank were given to the Committee by Mr. Horsley Palmer, a Director; by the Governor and Deputy-Governor, and by Mr. Cotton, who was Governor of the Bank in 1844. The Bank has also furnished to the Committee much information, in the returns which will be found in the Appendix.

"Lastly, the Committee thought it advisable to call before

them Mr. Jones Loyd, Mr. Tooke and Mr. Taylor, gentlemen who are well known to have given much attention to our monetary system.

"There has been a general concurrence of opinion amongst the witnesses examined before Your Committee, that the primary cause of the distress was the deficient harvest, especially of the Potato crop, in the year 1846, and the necessity of providing the means of payment in the year 1847, for the unprecedented importations of various descriptions of food which took place in that year.

"Among other causes, the deficient supply of cotton, the diversion of capital from its ordinary employment in commercial transactions, to the construction of railroads, the undue extension of credit, especially in our transactions with the East, and exaggerated expectations of enlarged trade, have been stated, by some of the witnesses, as having contributed to the same result.

"Your Committee see no reason to doubt that these causes have in different degrees, in different parts of the country, produced the effect thus ascribed to them.

"For the further development of the views entertained on these various points by the gentlemen whom they have examined, they must refer to the evidence.

"With regard to some of the circumstances above referred to, provision has already been made by Parliament, and it must be obvious that others are beyond the control of legislative enactment.

"Many of the witnesses, including the Governor and Deputy-Governor of the Bank of England, have expressed their belief that earlier steps in the autumn of 1846 and the spring of 1847, on the part of the Bank of England might have obviated the necessity for the more stringent measures which circumstances compelled the directors to adopt in April, and might thus have prevented the alarm which was caused by those measures. The grounds on which that belief is entertained, together with the considerations which influenced the proceedings of the bank, are explained in the evidence of those witnesses who were examined on this branch of the subject. It is one, in respect to which a wide discretion must necessarily be left with those who are charged with the management of the business of the bank, and your Committee trust that this discretion will be exercised with due prudence, if similar circumstances should again occur.

"An opinion appears to have been entertained by some persons though not by the Governor and Deputy-Governor of the Bank of England, that the bank is released by the Act of 1844 from any obligation, except that of consulting the pecuniary interests of its proprietors.

"It is true that there are no restrictions imposed by law upon the discretion of the bank, in respect to the conduct of the banking, as distinguished from the Issue Department. But the bank is a public institution, possessed of special and exclusive privileges,

standing in a peculiar relation to the Government, and exercising, from the magnitude of its resources, great influence over the general mercantile and monetary transactions of the country.

"These circumstances impose upon the bank the duty of a consideration of the public interest, not indeed enacted or defined by law, but which Parliament in its various transactions with the bank has always recognised, and which the bank has never disclaimed.

"It is unnecessary to impose such duty by law, as there can be little doubt that the permanent interests of the bank are identified with those of the public at large.

"That identity of interest gives both to the public and to the proprietors of bank stock a deep interest in every measure calculated to insure an enlightened administration of the affairs of the bank.

"Your Committee have learned, therefore, with satisfaction, that the attention of the Court of Directors has been given to this subject, and that a change has been made by them, as to the selection of the Governor and Deputy-Governor, calculated, in the opinion of Your Committee, to improve the constitution of the governing body of the bank.

"They feel confident that the effect of this change, and the experience which has been acquired during the events of the last two years, will insure to the public, in the future management of the Bank of England, greater benefits from this national establishment than it has hitherto been the means of conferring upon the country.

"Your Committee have received, with deep regret, from many witnesses, evidence of the extent of loss incurred by commercial houses in the course of last autumn, from an unprecedented combination of the circumstances above referred to, and seriously aggravated by the want of confidence which prevailed in consequence of the numerous failures, and which induced bankers and others to retain a reserve, both of gold and of bank-notes, to a very great extent. It is to be observed, that this took place with a very large amount of notes in the hands of the public, exceeding, in the opinion of a witness most competent to form an opinion, by no less than 4,000,000*l.*, 'the actual requirements of the public at the time.'

"The feeling of alarm which prevailed appears to have been immediately removed by the issue of the letter addressed to the Bank of England, on the 25th of October, by the First Lord of the Treasury and the Chancellor of the Exchequer.

"The issue of that letter was, no doubt, an extraordinary exercise of power on the part of the Government; but The House has decided that, in the peculiar circumstances of the period, they were justified in taking that step. It will be seen from the evidence of Mr. Cotton, the Governor of the Bank in 1844, that the possibility of circumstances arising, in which some extraordinary measures might be called for in consequence of a state of monetary

crisis, was not unforeseen by the Government at the time when the Act of 1844 was passed.

"The evidence which has been given as to the effects of the Act of 1844, has been contradictory. Its beneficial effects, as regards the issues of the country banks, have been admitted by many of the witnesses, and although some have suggested an alteration of its provisions, very few have contested the general principles on which it is founded.

"Your Committee have had under their consideration, whether it is advisable that powers should be conferred by law upon the Government, to enable them to meet the occurrence of any circumstances which may call for extraordinary interference; but they have come to the conclusion that, looking to the impossibility of foreseeing what the precise character of the circumstances may be, and also what may be the measure best calculated to meet them, it is more expedient to leave to those with whom the responsibility of the Government may rest at the time, to adopt such measures as may appear to them best suited for the emergency.

"Your Committee, therefore, after a careful review of all the evidence, are of opinion that it is not expedient to make any alteration in the Bank Act of 1844.

"8th June, 1848."

James Morris, Esq., Governor of the Bank of England, and Henry James Prescott, Esq., Deputy-Governor of the Bank of England, and J. S. Loyd, Esq., gave the following evidence before the Committee of the House of Commons in 1848: —

3221. "Is there, in your opinion, any other mode by which the tendency to an efflux of the precious metals, and the consequent diminution of the circulating medium, can be arrested (whether that efflux arise from a demand for corn, consequent on a bad harvest or from any other cause), than such a reduction of prices of commodities as shall lead to export, and such a rise in the value of money as indicated in an advance of the rate of interest, as shall tempt capital to flow hither for investment? — No, I think that there is no other mode by which that tendency can be arrested."

3222. "Do you think that the monetary pressure of 1847 and the rise of interest, (considering them for the moment apart from the temporary panics of April and October,) were more than were to be expected from the extraordinary circumstances of the country, or were more than were necessary to prevent a yet greater drain of the precious metals than actually occurred? — Mr. Morris. No, I think not."

3800. "Are you aware that the public stocks in the country and canal and railway shares had already by the 23rd of October

been depreciated in the aggregate to the amount of 114,752,225*l.*? — It has been so stated."

3801. "Was it to be endured that a still greater depreciation than that should be submitted to?— If it was a necessary consequence arising out of the then state of things, it could not be helped."

3802. "The restriction having been taken off between the 23rd of October and the 1st of December, it appears that the public funds were again appreciated to the amount of 42,269,000*l.*, and that railway shares were appreciated to the amount of 3,123,749*l.*; does any thing speak more plainly than that of the ruinous effects of the bank restriction upon the country, and the great advantage of the removal of it? — I consider that the pressure which arose out of the peculiar circumstances of that time did not arise in consequence of the Bank Act, but that it arose from circumstances perfectly independent of it; I have stated that it arose in consequence of the very large importation of food at a period of high credit and speculation, and it is impossible that a portion of the country should not suffer after you have required an importation of food to the extent of 26,000,000*l.* in one year."

3803. "I am speaking of the crisis in October, the period in which this panic was allayed. I believe we may take it that the same property which had been depreciated previously to the 23rd October, to an amount of very nearly 94,000,000*l.*, was appreciated in the course of less than six weeks after that date to an amount of 42,000,000*l.*? — I have stated that if the letter had not been issued, I am not prepared to say the panic might not have subsided of itself in a short period. In April the same representations were made, that unless Government came forward, and granted assistance in the way of relaxation, the consequence would be fatal to the country; but Government did not grant any relief, and in the course of a short period things recovered themselves; my impression is, that in October the same result might have been witnessed."

3846. "When I spoke of depreciation of stocks and fixed capital, are you not aware that all property invested in stocks and produce of every description was depreciated in the same way; that raw cotton was sent to the continent at the same depreciated price, that raw silk and unmanufactured wool were sent to the continent at the same depreciated price, and unmanufactured wool, and that sugar, coffee, and tea were sacrificed as at forced sales? — I can only state that it was, in my opinion, inevitable that the country should make a considerable sacrifice for the purpose of meeting the efflux of bullion, which had taken place in consequence of the large importation of food; it was impossible to go through such severe circumstances without the country being seriously affected by them."

3847. "You stated that it was all on account of the 9,000,000*l* of gold that went out of the country for corn? — I stated that the sudden importation of a large amount of food, by which an amount of bullion, to the extent of 9,000,000*l.* went out of the

country, acting upon the previous high state of credit, and speculation, had produced that effect."

3848. "Do not you think it would have been better to trench upon the 8,000,000*l.*, lying in the coffers of the bank than to have endeavoured to get the gold back again at such a sacrifice? — No, I do not."

3426. "A diminished power of consumption on the part of the public would have been rather advantageous than otherwise to the system of circulation? — A diminished consumption would have checked importation."

3427. "Then, the more privation the public was subjected to, the safer the system of circulation? (Mr. Prescott) — It is necessary sometimes for the public to deny themselves, or for the country to deny itself, the consumption of certain foreign commodities, in order to restore the circulation to a proper state."

3428. "Was the intention of the Act of 1844 to stimulate exports under an unfavourable state of the exchange? (Mr. Morris) — The intention of the Act of 1844 was to place the circulation of the country in such a condition as to necessitate exports under an adverse exchange."

3429. "Did it produce that effect in the spring of last year? — Yes, it produced the effect of causing an export of bullion."

3430. "Was it the intention of the Act of 1844, under that state of things, to stimulate the export of goods in order to correct the unfavourable balance of trade? — The object of the Act of 1844 was to render it necessary that an export, either of goods or precious metals, should take place for the purpose of rectifying the state of the exchanges."

3431. "Does it fall within your knowledge that the export of goods, under the pressure of April 1847, was, for a short period, extremely embarrassed, and almost entirely stopped? — I am not aware."

3432. "Was it the intention of the Act of 1844 to check imports, so as to correct the unfavourable balance of trade? — I consider that the object of the Act of 1844 was to allow the circulation of the country to be acted upon by the exports and imports in the same way as the currency would have been acted upon, supposing it had been entirely a metallic currency."

3433. "Then, there being an export of gold in the spring of 1847, the tendency of the system was to check imports? — Inasmuch as the export of a certain amount of bullion would contract the circulation of the country, and cause a fall in prices, it would tend to check importation."

3434. "Then in 1847 when there was a great deficiency in food, the tendency was to check the importation of food? — The export of the precious metals, by reducing the circulation, tended to keep down the prices of grain, and it also kept down the prices of manufactures, which might be exported in payment; therefore, if on the one hand it counteracted the rise in the price of grain, it also brought about a fall in the price of securities and manufactures."

3445. "Do you think the system of circulation should be preserved at any cost to the employment of the people? — I think it is desirable that the circulation should be placed on such a footing, as that it should expand and contract in the same way as a metallic currency would do; I cannot vary from that."

J. S. Loyd, Esq.:—

5192. "The Act of 1844 was supposed to have released the bank from any necessity of attending to the public interests, and it was supposed that the bank was at liberty practically to look to its own profits, and not to the general interest of the public; was that your impression of the operation of the Act? — In a certain sense of the word, I think that is correct; it is desirable so to organise all public institutions, that looking to their own interests wisely and discreetly, and taking a sufficiently comprehensive view of them, will be the best course not only for their own but for the public interests also. At the same time, the bank, from the great magnitude of its resources and transactions, stands in a peculiar position. The bank, to whatever extremity it may allow its banking means to be reduced, can, by the very magnitude of its operations, in the last extremity, make an effort which is almost sure to protect itself; but that effort will entail upon the community very serious consequences and produce very great mischief; in that respect the bank seems to me to differ considerably from all private concerns. If I mismanage my private bank I am ruined, but the public sustain little inconvenience; but if the Bank of England commits some great mistake, the bank can save itself, whilst it spreads extensive injury throughout the community; in that respect, I think it differs in an important sense from a private concern."

5205. "The issuing of notes now depends entirely upon the increase or decrease of the quantity of bullion held by the bank? — The quantity of notes now varies entirely with the state of the bullion."

5207. "Then the Act was passed with a view to make the Bank of England do, under the Act of Parliament, that which they had not formerly done, in the exercise of a wise discretion? — It was passed for the purpose of securing by law the proper course being taken for protecting the convertibility of the note, which we had found, by previous experience, could not be safely intrusted to any discretionary action."

5247. *Ans.* "I call tampering with the currency the issuing of notes without reference to the variations in the bullion."

5253. "You stated that you thought the magnitude of the Bank of England was one reason why it should conduct its business somewhat differently from any other banking establishment? — More under the influence of fixed rules, was the expression I used."

5254. "You gave as a reason, that at a period of pressure the

magnitude of its transactions is so great, that it has a power to interfere for its own protection, to the disadvantage of the public, which private bankers had not? — Yes; I spoke with reservation, rather as giving an opinion than a decided judgment; I think the effect of the magnitude of the bank is, that it can throw the effect of its mismanagement more upon the public, and less upon itself, than a private concern can do."

5255. "Do you think that that can be mitigated by the Bank of England being deprived of those peculiar advantages which it enjoys under the Acts of Parliament, and by those advantages being thrown more open to competition? — I am hardly prepared to state what consequence my opinion leads to."

SECOND REPORT.

The Secret Committee "appointed to inquire into the causes of the recent Commercial Distress, and how far it has been affected by the laws for regulating the issue of bank-notes payable on demand," and who were empowered to report from time to time to The House; — Have made a further progress in the matter referred to them, and have agreed to this their Final Report: —

"Your Committee, in further prosecution of the inquiry intrusted to them, have examined several gentlemen connected with the mercantile and banking interests of Scotland, the Governor of the Bank of Ireland, and other gentlemen connected with the mercantile and banking interests of that country.

2. "Your Committee submit the evidence of these gentlemen to The House, together with that of other witnesses who have been examined, in reference to an incidental point which has been raised regarding the effect upon the India trade of the system followed by the East India Company in making advances on goods hypothecated with them in India.

3. "In the opinion of the witnesses from Scotland and from Ireland, no material effect has been produced upon the monetary or commercial affairs of those countries by the Acts of 1845, by which the issue of notes payable on demand in those parts of the United Kingdom is regulated.

4. "Evidence has been given by some of the witnesses as to the effect both in Scotland and Ireland which they attribute to the Act of 1844, but as on this subject Your Committee have already stated their views, they do not think it necessary to offer any further observations thereupon.

5. "With regard to the Acts of 1845, Your Committee are of opinion that it is not expedient to make any alteration in their provisions.

6. "Your Committee submit in the Appendix various accounts, in which much valuable information will be found on the whole subject of their inquiry.

"2nd August, 1848."

SCOTLAND.

The following evidence was given by Robert Bell, Esq., the Manager of the City of Glasgow Bank; July, 1848 :—

6843. "Do you believe that the passing of the Act of 1845, which in fact imposed a restriction on the amount of currency to be issued, tended to create anything like alarm in Scotland? — The mere passing of the Act did not create alarm; it was only when it came into operation, and when the gold was disappearing from the Bank of England, that people became frightened."

6844. "Do you consider that the publication of the quantity of gold in the coffers of the Bank of England has a good or bad effect on the circulation? — I think it has a bad effect on public confidence."

6845. "Do you consider that publication of any use to you as a banker, in enabling you to regulate the amount of your currency?—I never could discover much use in it; I study it, and endeavour to draw inferences from it, but I cannot say that I derive much benefit from it; when we see gold disappearing from the Bank of England we get alarmed."

6846. "Have you regulated your own issues by the greater or less quantity of gold in the Bank of England? — To a certain extent the greater or less quantity of gold in the Bank of England affects our issues, because when the gold is disappearing from the Bank, we endeavour to restrict the accommodation we give."

6847. "When you begin to see gold disappearing from the Bank of England you take alarm and restrict your accommodation accordingly? — Yes; we restrict the accommodation as far as is consistent with good banking."

6848. "What is the meaning that you attach to the words 'good banking?' — I hold it to be the great principle of good banking to give a uniform amount of accommodation to those parties who have been induced to become my customers, and to depend upon me for accommodation."

6849. "You think that you ought to keep up a regular amount of accommodation? — Yes, provided the responsibility of the parties remains the same."

6850. "Does that apply to your deposit of money or to your cash accounts, or to both? — We have very little control over the cash accounts, and since the Act of 1845 passed we have ceased to grant them."

7028. "You do not regard the state of the foreign exchanges in determining the amount of your issues? — As I have observed before, the principal effect of the publication of the amount of bullion in the Bank of England is, to make the banker in the provinces more cautious in his dealings; but, at the same time, we endeavour to give to our legitimate customers that amount of accommodation which we have been in the habit of giving."

7029. "You give them the accommodation which they require, provided you are satisfied of their solvency? — Yes, and that it is used in the legimate way of their business."

7030. "A prudent banker, you think, might attempt to establish a restriction; but, as regards bankers generally in Scotland, when commerce is very active, and the demand for accommodation is very great, the bankers generally give way to that, and increase their issues accordingly? — In Scotland we distinguish a good deal in this manner; we do not think that a bank can issue a *1l.* note more than the commerce of its legitimate customers gives employment to, and if we increase our accommodation to our customers it must be by drawing upon our resources elsewhere."

7031. "You cannot increase your notes beyond the demands of commerce; but I am putting a case where commerce is very active; there is a disposition to speculate in railways, and there is a simultaneous demand upon all the banks for increased circulation; there, it would appear that the demands of active commerce required increased issues, and in that case you think it would be the general practice of the banks in Scotland to issue in proportion to the demand? — If you will look to the amount of our circulation during the last five years, you will find that a few hundred thousands of pounds constitute the whole difference between a period of great prosperity and a period of great adversity, so that whenever a banker exceeds in his accommodation to his customers his average amount, he must fall back upon his other resources; he must fall back upon his capital, and not upon his issues."

7042. "Confidence in the Banks of Scotland, during the last two years of severe depression, has remained unshaken, has it not? — Yes, I think it has."

7043. "There has been no failure of any Bank there? — No."

J. Fletcher Macfarlan, Esq., Secretary of the Chamber of Commerce in Edinburgh; July, 1848: —

7525. "You have had a period of severe commercial depression in Scotland? — Yes."

7526. "During that period there has been no want of money? — There has been a difficulty in getting at it, especially up to the suspension of the Act; they could not be certain whether they could get it when they might want it, and therefore each bank tried to secure a supply for its own demand."

7527. "What is the meaning of the observation which you have twice repeated, there has been plenty of money? — There was plenty of deposit money, and plenty of capital in the banks, but when the depression arose, the difficulty was to get at it; each bank regulates itself to a certain extent by the Bank of England; had they been forced to sell the securities they held in reserve,

it would have entailed a considerable loss, therefore great unwillingness existed to give advances; and hence the difficulty."

7528. "Was there an abundant circulation in Scotland? — We felt no want."

7529. "There was unbounded confidence in the banks? — There was."

7530. "All that existing during a period of commercial depression? — Yes."

7531. "No restriction on the circulation? — There was a restriction so far, that large interest was demanded; in one case, I know there was a sum of no less than 20,000*l.* for which 16 per cent. was demanded."

7532 to 7538. "It was paid and answered the purpose." "The house which borrowed it, has repaid it, and is solvent." It was borrowed from a bank for "three months:" "only to tide over a difficulty."

7399. "Will you state not what their fears (the Chamber of Commerce) then were, but what in their opinion and in your own have been the effects of those Acts (of 1844 and 1845)? — The effect, particularly of the Act of 1844, so long as there was no demand for gold for exportation, appeared to be nothing at all; it was just a nullity; it was not brought into operation; it was only when a demand for the exportation of gold, or the withdrawal of gold from the bank arose, that then it appeared to them to come into operation."

7604. "(Sir Robert Peel) I understand you to say that, supposing the circulation of notes payable on demand throughout the United Kingdom was forty millions, it would be advisable that one third of that amount should be kept somewhere or other in gold? — About that much would be amply sufficient; in ordinary circumstances it would not be required, but to guard against the foreign exchanges."

7605. "Then there would be thirteen millions of gold kept to give public confidence in the convertibility of the note; it would be a dead loss keeping that, in one sense? — In one sense."

7606. "That is a loss which must be borne by the United Kingdom collectively, is not it? — Certainly; whatever is for the public benefit should be borne by the whole nation."

7607. "The amount of gold you keep in Scotland is about one million? — Yes; I would keep none in Scotland at all; I do not see that it is necessary to keep any in Scotland."

7618. "Must not there be a loss attending upon reserving a supply of gold equal to ten or twelve millions in order to secure the convertibility of the note? — There must be a loss; where it is for the general interest of the country it should properly be borne by the State."

7619. "When you say 'borne by the State,' you mean borne by the people of this country who pay taxes? — Yes, borne out of the taxes, of which Scotland pays its full proportion."

7620. "Still the loss of interest is a loss borne by the country at large? — It is."

IRELAND.

James Bristow, Esq., upwards of twenty years a Managing Director of the Northern Bank, resident at Belfast; July, 1848: —

7188. "When did you first feel the commercial difficulties of 1847 and 1846? — Immediately after the harvest was ascertained we began to be very cautious, but I cannot say that we felt any difficulty up to April, 1847."

7189. "Your rate of discount follows the rate of discount of the Bank of Ireland, does it not? — Generally it does."

7191. "What was the highest rate of discount in Belfast in April, 1847?—We were charging 6 per cent. in April, 1847, that was our highest rate."

7202. "During the difficulties in the autumn of 1847, what was the highest rate of discount that you charged? — The highest rate that was charged by us at any time was 8 per cent."

7203. "Was that before the issue of the Government letter?— No, not till after the issue of the Government letter; 7 per cent. was the highest rate charged by us previous to the issue of the letter; the rate had been about 7 per cent. from May till October."

7215. "What do you suppose were the causes of the difficulties in 1846 and 1847 in Ireland? — The principal circumstance which first caused the difficulties everywhere was, the efflux of gold for the purchase of corn; without that we should have had no difficulty; but that made us all very anxious and cautious, from the moment we saw the efflux must increase, as it was impossible to see the extent to which it would go."

7227. "Do you consider the Act of 1845 as one of the causes of the difficulties? — No; the Act of 1845, I think, has produced no injury to Ireland."

7228. "Are you of opinion that the Act of 1844 was one of the originating causes of the difficulties? — I do not think it was the originating cause, but it was a cause of very serious aggravation; so soon as the reserve in the Bank of England got small, every one who had anything to do with money, and the responsibilities connected with it, became exceedingly anxious, and took measures for providing themselves with money, lest the state of matters that would arise should prevent them from getting money at any price; for the price of money would not be an object."

7249. "Do you attribute the difficulties of April to the Act of 1844? — I think the Act operated through the whole year in producing a feeling that circumstances might bring the reserve of the Bank of England too low, or perhaps exhaust it altogether."

7251. "In what way would you remove the inconvenience which you think now exists, arising from the operation of the Act of 1844? — By getting rid of that portion of it in some way, and not binding the bank to a fixed amount."

7252. "Would you repeal the Act entirely as to that part? —I would repeal the Act entirely; I think putting an absolute limit, which is perfectly inflexible, is a very objectionable thing for the trade of the country. How that is to be got rid of, or how it should be provided against, I do not feel myself competent to say, but that is the portion of the Act that appeared to me likely to create injury; and, as far as my observation goes, I should say that it has produced considerable injury."

After a perusal of the "Reports" of the two Committees, and of the evidence of which I have endeavoured to give an impartial, although necessarily an imperfect compendium, it may really be asked, "What is the subject of inquiry?" "I promise to pay to the bearer on demand ten pounds" is a very simple proposition, and the obligation evident; he who promises must perform the promise. If the National Bank receives bullion in deposit for which it gives a credit, an engagement to deliver it on demand, that is a proposition equally simple; neither of these propositions can be the subject of inquiry.

Does not the difficulty in the inquiry arise from the attempt to reconcile "the great privileges and exclusive powers," the "special and exclusive privileges" of the Bank of England, with the welfare of the community, with security of property?

Adam Smith observes, b. iv. c. ii. v. 2. p. 243.:—

"The statesman who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."

What shall be said of "powers" and "privileges" unknown to the constitution, vested in an irresponsible corporation, not, perhaps, "to direct private

"people in what manner they ought to employ their "capitals," but to control the commerce of a mighty empire by a reduction of the prices of commodities *, by a "stoppage of trade" and "of credit," † in order to protect that corporation, the Bank of England, from the foreign demand for bullion, and from the demand of payment of their promissory notes?

The Committee of the House of Commons do not make their report with a commentary upon the evidence of the witnesses in the same argumentative manner, or at the same length, as the Committee of the House of Lords.

Both committees concur in opinion that the commercial distress was occasioned, in a greater or less degree, by the failure of the potato crop, occasioning an unprecedented importation of food; by the deficient supply of cotton, by the diversion of capital from its ordinary employment in commercial transactions to the construction of railroads, and to an undue expansion of credit and overtrading.

The Lords' Committee attribute the distress partly to overtrading occasioned "by increased facilities of "credit and a low rate of interest;" and with respect to the houses connected with the East and West India trade, to a sudden and extensive fall in the price of sugar, by which the value of their most readily available assets underwent great depression.

Both committees repudiate the notion that the banking department is released from all responsibility, as to the effect of their management upon the public interest; both concur that the permanent interest of the Bank of England is identified with the interests of the country.

Both committees bear equal testimony to the integrity and disinterestedness of the Directors of the Bank of England; and the Committee of the House of Lords would enlarge their power by giving the directors a discretionary power to relax the rule of

* See *antè* p. 323. (3221.) † See *antè* p. 207. (2113, 2117.)

not exceeding a certain fixed amount of issue upon securities, to be exercised when the foreign exchanges are favourable. The Committee of the House of Commons "are of opinion that it is not expedient to "make any alteration in the Bank Act of 1844."

Both committees approve of the issuing of the letter of the 25th of October, under the existing circumstances.

The witnesses dwell upon the peculiar circumstances of the time, the failure of the potato crop, the speculations, the large capital invested in railways, and the partial failure of the cotton crop, as accounting in a principal degree for the commercial crisis of 1847; this does not appear to me as a necessary consequence, or a cause why *general* distrust should prevail; great losses and great suffering would accrue to individuals; but when such immediate relief resulted from the letter of the 25th of October, it may well be doubted whether the present system of banking, and the Act of 1844, were not one principal cause of the commercial distress: that letter could not supply the deficency of the potato crop, nor of the cotton crop, could not repair the losses already incurred by improvident importations of corn, by imprudent speculations, or by investments in railways.

Sir Robert Peel observes, (7606,) that the loss on keeping thirteen millions of gold "must be borne by "the United Kingdom collectively." It seems extraordinary that any stress should be laid upon the loss of interest on this gold, when the depreciation on certain descriptions of property is so considerable; if it be meant that the pressure upon commerce, with the consequent depreciation in the prices of merchandise and securities, is for the general good, and should therefore be borne by the United Kingdom collectively; this is not the case; it is not borne generally; creditors are benefited, the exporters of the cheapened commodities are benefited, the money lenders are benefited; and the sellers of merchandise and the borrowers of money are injured; and the mode of levying a general

contribution would be by taxation: but I submit that the United Kingdom collectively "should not bear "the loss of interest on keeping thirteen millions of "gold:"—those who are benefited by the circulation of promissory notes should bear any loss or expense attending the circulation of those notes: and those who are benefited by the trade in bullion should bear any loss or expense attending the bullion.

It is not the efflux of bullion either from the country or from the bank that impoverishes *the country*, or occasions the pressure or increased rate of interest — it is only when the efflux becomes inconvenient to the bank; the present system is artificial, and it is the poverty of the *bank*, and not the poverty of the *country* that induces the stringent measures: not the poverty of the bank in property or assets, but a deficiency in the quantity of bullion — not a deficiency in the confidence of the public to obtain *coin* for bank notes, but a deficiency of *merchandise*, of that most *commodious commodity*, the bullion, which is wanted for exportation, and which, I submit, ought to be entirely removed from the custody of the Bank of England, and of all other banks.

The Governor of the Bank observes, (p. 325 *antè*,) 3432, "I consider that the object of the Act of 1844 "was to allow the circulation of the country to be "acted upon by the exports and imports, in the same "way as the currency would have been acted upon, "supposing it had been entirely a metallic cur-"rency;" and 3445, "I think it is desirable that the "circulation should be placed on such a footing, as "that it should expand and contract in the same way "as a metallic currency would do; I cannot vary from "that."

Sir Charles Wood also says, (p. 240 *antè*,) "It is "not enough, then, to enact that the bank notes shall "be convertible. The paper circulation must not "only be convertible, but must vary in amount from "time to time, as a metallic circulation would vary."

It is assumed that it is a sufficient recommendation

and justification of the present system, that by the Act of 1844, the paper circulation is made to vary in amount as a metallic circulation would vary, and that if the circulation were wholly metallic all difficulty and inconvenience would be done away with: but the grievance would still exist. The mischief arises not from the circulation of promissory notes, but from the Bank of England undertaking more than it can perform, from its inability to discharge its obligations as a banker, and as the treasurer of the international bullion. Supposing that the Bank of England did not issue promissory notes, and continued to have the custody of the gold and silver required for foreign commerce, it would then discount bills payable after date, as at present, but without the intervention of bank notes: those who wanted to export gold and silver would discount their bills as they do now, but instead of receiving from a separate department the bullion in exchange for bank notes, they would receive it immediately from the banking department; the bullion would be the property of the depositors, or their representatives, and the bank would be trading with their bullion and not with its own property. It must be remembered that the bank is equally bound to deliver coin for *bills* at present, if required; and as the treasurer of the precious metals, it would be bound to deliver bullion for exportation, if required, in discounting bills, if there were no promissory notes. The bank having no commodities wherewith to purchase the bullion with which it traded, and which it would hold on trust, would be still obliged to derange commerce and lower prices, as at present, in order to check the exportation, or promote the importation of the precious metals: if the bank were required to deliver more gold than was considered consistent with its safety, it would limit its accommodation or charge a higher rate of discount, giving a shock to credit as at present, and forced sales would take place, and merchandise and produce would be exported as at present, and the demand for gold would cease.

I am supposing that the Bank of England enjoyed with a metallic circulation the same power and influence as at present, by means of its *magnitude*, excepting the privilege of issuing promissory notes.

In case the bank were to discount more bills than was prudent, and a demand for bullion arose for exportation, they would be in the same difficulty. In every case, how is an international treasury, which has no gold of its own, to *trade* with the bullion deposited on trust, without being exposed to the evils of an inconvenient demand for exportation, which may exhaust its treasure, and when exhausted, how is it to recover the treasure?

The present system is perfectly consistent, and essential to the *maintenance of the position of the bank*, in contradistinction from the discharge of *moral* obligation and the payment of debt.

The Bank of Amsterdam was not a corporate body, had no common fund, was not a trading corporation, and each depositor had a separate fund and credit for the sum he deposited.

The laws which govern the exchange of commodities, whether it be commodities for commodities, or gold for commodities, the laws of commerce between nations, and of traffic between individuals of the same nation, are uniform, simple, and consistent; those laws are two: the law of private interest, which is the moving power, and the law of justice which regulates that movement: if these two laws are undisturbed, we need not trouble ourselves about the exchanges: these laws are independent of all management and of all contrivance: infringe these laws and commerce is shaken to its basis; uphold them, and it may defy every attack.

It should be considered that the international money, the bullion, which circulates through the nations, when in a state of active circulation, and when in a state of repose, will be exactly in that nation where the general commerce of the world requires

that it should be, provided it be free, and in a state of security.

It matters comparatively little to the Great Mercantile Republic, where it may chance to be, provided it be free to fly to that quarter of the globe where it may be wanted. Private interest, which when multiplied means general interest, will determine its place, without the interference of governments or National Banks.

It will circulate to *feed* commerce as freely, and as certainly, as corn will circulate to *feed* those nations, who are most in need of it; interrupt and disturb the flight of either, and you starve commerce in the one case and man in the other.

In so great a question it is not necessary to allude to the remuneration of the bank proprietors.

If the French people * prayed to be taxed in order to escape from the tampering with the coin, this country will cheerfully bear to be taxed, to escape from the mischief of tampering with credit, and the prices of commodities.

To the owner of property and of goods it is a matter of indifference whether the value be lowered by tampering with prices, or tampering with the standard — whether the price be lowered by a shock to credit, or by increasing the weight of the coin.

Adam Smith, b. v. c. i. v. 3. p. 161.:—

"Though the principles of the banking trade may appear somewhat abstruse, the practice is capable of being reduced to strict rules. To depart upon any occasion from those rules, in consequence of some flattering speculation of extraordinary gain, is almost always extremely dangerous, and frequently fatal to the banking company which attempts it. But the constitution of joint-stock companies renders them, in general, more tenacious of established rules than any private copartnery. Such companies, therefore, seem extremely well fitted for this trade. The principal banking companies in Europe, accordingly, are joint-stock companies, many of which manage their trade very successfully without any exclusive privilege. The Bank of England has no other exclusive privilege, except that no other banking company in England shall consist of more than six persons. The two Banks of Edinburgh are joint-stock companies, without any exclusive privilege."

* Bazinghen, tome i. p. 40.

P. 163. :—

"The great and general utility of the banking trade, when prudently managed, has been fully explained in the second book of this Inquiry. But a public bank, which is to support public credit, and, upon particular emergencies, to advance to government the whole produce of a tax, to the amount, perhaps, of several millions, a year or two before it comes in, requires a greater capital than can easily be collected into any private copartnery."

P. 161. :—

"The only trades which it seems possible for a joint-stock company to carry on successfully, without an exclusive privilege, are those of which all the operations are capable of being reduced to what is called a routine, or to such an uniformity of method as admits of little or no variation. Of this kind is, first, the banking trade."

It is remarkable that Adam Smith enumerates first in the list of those trades that can be successfully carried on by a Joint-Stock Company, *without an exclusive privilege*, the banking trade, as being a trade, of which "all the operations are capable of being reduced to a routine or uniformity of method, admitting of little or no variation," so little importance did he attach to that *management*, which was to be the result of *monetary science*, in the language of the present day. Of the Bank of England he observes, that for the support of public credit and for the advances to government, it may be necessary to give it the advantage of a *joint-stock copartnery*, as it requires "a greater capital than can easily be collected into any *private* copartnery."

No allusion is made to the necessity of the Bank of England being "possessed of special and exclusive privileges;" of its exercising "great influence over the general mercantile and monetary transactions of the country *; of imposing upon the bank the duty of a consideration of the public interest;" or "that the permanent interests of the Bank are identified with those of the public at large."

* Report, p. 322, *antè*.

CHAP. XXVIII.

FARTHER CONSIDERATIONS CONCERNING THE BANK ACT OF 1844.

The Right Honourable Lord Overstone states in his evidence 3895, 4025, 4026, 4027, 4028, before the Committee of 1857, his Lordship's view of the object of the Act and of the means of securing that object.

His Lordship laid great stress (3895) upon the publicity given to the reserve of the Bank of England, "which everybody knows and everybody watches;" thus producing a "moral" and "direct," and what his Lordship says he may call "a mechanical effect." The influence exercised on the exchanges is by making money more stringent, and by lowering prices; as stated by his Lordship (3810), p. 255, *antè*; but it can hardly be said that "everybody knows and everybody watches" the reserve; those who are interested in money transactions may do this, but the tradesmen and agriculturists, and above all, the labourers in the manufacturing districts, who are most interested, know little or nothing about the matter.

It can scarcely be said that the bank note is (4025) "a certificate of that amount of bullion which would be in circulation as money, if there were no paper note." His Lordship had before stated (3785), p. 254, *antè*, "the object of the Act" to be "to make the paper money of the country sustain a diminution both in amount and in period precisely the same as

would be sustained by the metallic money of the country;" these bank notes are called (3740) "certificates of bullion;" but if the money were metallic, the circulation would not absorb the bar-gold and silver bullion which is in the issue department: the lower denomination of notes to a certain extent would be supplied by coin; but that bullion which is in the issue department has reference more immediately to the demand for exportation; and the influence exercised on the exchanges has reference only to this exportation of the precious metals.

Is it worthy of a great nation that the security of the convertibility or payment of its paper circulation of promissory notes should rest upon the sufferings and sacrifices and endurance of the people, and not upon the resources of the issuers of the promissory notes, upon the "fortune, probity, and prudence" of the Bank of England? Is it quite certain that the country will bear the needful pressure and loss, whether by the contraction of the currency, the withdrawal of bank notes, or the raising to the needful rate the discount on bills? Is it quite certain that the Government will permit the provisions of the Act to be enforced?—the rule of pressure failed in 1847, and in 1857.

Lord Overstone states (4151), "the Bank of England note, practically, for all purposes is a legal "tender everywhere throughout the country, except "by the issue department."

3912. "I have no hesitation in saying that the "Bank of England can put out any quantity of its "notes that it thinks proper; that the effect of that "will be to drive gold out of the country; that the "notes will take the place of the gold in the circulation, and that will go on until the whole of the gold "has been driven out of the country."

3980. The Act of 1844 "has secured such an "amount of paper money in this country as shall "render it impossible for the bullion reserve to be "drained out of the country."

4027. " There is such a quantity of bullion held " in reserve that the country will never bear a reduc- " tion of its notes to so low an amount as to ex- " haust its bullion."

3994. " Whatever be the extent of failure, what- " ever be the extent of misconduct or mismanage- " ment by bankers or by the mercantile community, " the maintenance of specie payments can never be " endangered."

3953. " To whom does the issue department be- " long ?

" The issue department belongs to the State."

I would observe that a National Bank "that can issue any quantity of its notes that it thinks proper," that can never be drained of its coin or bullion; the notes of which are "practically a legal tender throughout the country," except at the issue department, which "issue department belongs to the State," and which State by an Act of Parliament has rendered it impossible for the country to demand specie for the notes in circulation, to the full extent of the promises and engagements of the Bank; such a bank enjoys the immunity of a Bank restriction: whether that bank restriction be imposed directly in words, or indirectly by the provisions of an Act of Parliament it is the same thing to the country: and the bullion required is obtained in both cases, when the resumption of cash payments approaches; or when the Bank is inconveniently pressed for bullion for exportation, by the low prices of commodities.

Lord Bacon observes among the "discommodities "of usury that it bringeth the treasure of a realm " or state into a few hands, for the usurer being at " certainties and the other at uncertainties, at the end " of the game most of the money will be in the box, " and ever a state flourisheth, when wealth is more "equally spread.* "

* Essays on Usury, p. 153.

In confirmation of this opinion we find * ' That the "wealth of the Bank of St. George, at Genoa, in "process of time became so great that Machiavel says, "there was reason to apprehend that it would become possessed of all the territories of that little "State."

Lord Liverpool also observes, p. 224, "that many "of the principal families in Italy derive their origin "and their ample fortunes from persons who once "exercised the trade of banking."

It is curious that Lord Bacon, who would fix the legal interest at 5 per cent. (p. 156), and would authorize under certain conditions to lend at a higher interest, "certain persons licensed to lend to "known merchants upon usury, at a high rate," adds, "let it be no bank or common stock, but every man "be master of his own money; not that I altogether "dislike banks, but that they will hardly be brooked, "in regard of certain suspicions."

"Let these licensed lenders be in number indefinite, but restrained to certain cities and towns of "merchandizing," &c.

The Bank of Amsterdam was established in 1609. Who knows that the merchants at Amsterdam may not have determined that their Bank should be responsible only to individuals, "every man master of his own money," fortified in this arrangement by the authority of Lord Bacon? †

The Bank of England has recourse to no laws to enforce its claims, it accomplishes its purpose by *management*. It acts not upon the persons, nor *directly* upon the private fortunes of individuals; it imposes no fines, or penalties, or punishment on the exporter of gold, but by the "screw," and by pressure upon credit, it contrives to retain the gold, and

* See Istoria Fiorentina, lib. 8. (Quoted by Lord Liverpool, p. 224.)

† Lord Bacon published his first edition of his Essays on the 30th of January, 1597, his second edition in 1612.

to induce the exporter to substitute the property of others, the manufactures and produce, in its stead. The "screw" has much of the privacy which belonged to the "torture," but it acts upon the goods and chattels, and not upon the persons.

Who shall calculate the effect which such an example in high places may produce upon the morals of a nation!

The remedy which I have ventured to suggest appears to me to be dictated by the eternal and immutable laws of justice and of truth. The precious metals, "the most convenient commodity" for the foreign round-about trade of consumption, must like other commodities be reserved by the *owners to their peculiar* and appropriate use, and must not be confounded with the money of the domestic circulation.

Small is the quantity required for the home circulation in addition to the money which usually circulates, and it is remarkable how lightly Adam Smith treats the apprehension of a want of money for the domestic circulation.

B. iv. ch. i. v. 2. p. 215, 216.:—

"If the materials of manufacture are wanted, in-"dustry must stop. If provisions are wanted, the "people must starve. But if money is wanted, barter "will supply its place, though with a good deal of "inconveniency. Buying and selling upon credit, "and the different dealers compensating their credits "with one another once a month or once a year, will "supply it with less inconveniency. A well-regulated "paper money will supply it, not only without any "inconveniency, but in some cases with some advan-"tages. Upon every account, therefore, the attention "of Government never was so unnecessarily em-"ployed as when directed to watch over the preser-"vation or increase of the quantity of money in any "country."

It is to be observed that Adam Smith speaks only of the *national* coin; paper money cannot be substituted for the most convenient commodity, "the international money."

By a "well-regulated paper money," Adam Smith means bank notes for not less "than a certain sum," &c., as he has described it (p. 237, *antè*), regulated in its issue according to the means of performance — determined by the "fortune, probity, and prudence" of the banker commanding the confidence of the public. Little did he dream of the banker regulating his issues by virtue of his monopoly, so as to distress commerce, in case of need, in order to bring gold and silver into his coffers, and thus virtually to avoid the payment of his promissory notes in gold.

Surely there is no mystery in the performance of a promise: the ability to perform should limit the extent of the promise: the Bank of England like all others, must limit the amount of what it promises to pay or deliver, to its power of payment or delivery. May we not say in the language of Adam Smith (b. iv. c. iii. v. 2. p. 298.), when speaking of the spirit of monopoly:—

"The proposition is so very manifest, that it seems "ridiculous to take any pains to prove it; nor could "it ever have been called in question, had not the "interested sophistry of merchants and manufacturers "confounded the common sense of mankind. Their "interest is, in this respect, directly opposite to that "of the great body of the people."

Adam Smith unreservedly censures in strong language "the interested sophistry" of "merchants and manufacturers." I attribute no "interested" motives to any one, — and the Bank directors upon the great questions of the Bank restriction, and of making the Bank of England notes a legal tender, except at the Bank of England for sums above five pounds, were the passive instruments in the hands of the Govern-

ment. I verily believe that the whole system is *founded on delusion.* To advocate freedom of trade without freedom of prices appears to me repugnant to "the common sense of mankind."

As the principles which I advocate are of universal application, being simply those of justice and of truth, there appears to be no reason why the system, which is founded upon those principles, should not be universally adopted: why the foreign merchants and manufacturers trading with foreign countries should not severally establish their exchange banks, according to the extent of their commerce; the wants of all being the same, the same remedy may be applied wherever the pressure of the banks is found to affect prices generally. Instead of a rivalry of wealth involving monopoly and mischief, let there be a rivalry of honesty: let each nation be ambitious of establishing such banks and such exchange banks as may accomplish, each in its sphere, the purposes for which they were intended; to render the assistance that may be needed by the domestic, or national trade, and by the foreign or international commerce — let the international banks of the commercial world be founded "on right, on justice, on the real and legitimate interest" of banks and of nations.

Are the merchants and manufacturers of France so deficient in "fortune, probity, or prudence" that they cannot establish such banks? Are the merchants and manufacturers of the United States so deficient in "fortune, probity, or prudence" that they cannot establish such banks? Are the merchants and manufacturers of Russia and Prussia, and other maritime states, so deficient in "fortune, probity, or prudence" that they cannot establish such banks?

Is it not possible to unite the *commercial interest* of *nations* by the same rule that has been propounded for the maintenance of the *peace* of *nations?* Let us bear in mind the remarkable words of the extraordinary man who now governs a neighbouring country.

His Imperial Majesty at the banquet given to the members of the late Congress, expressed himself in the following terms :—

"I propose a toast in honour of the union so "happily re-established between the Sovereigns. May "it be a lasting one! and it will be so if it rests "always on right, on justice, on the real and legiti- "mate interest of nations."

Such were the words of the Emperor of the French; and may these just sentiments be the rule of commercial and of banking law!

Adam Smith observes (b. v. c. ii. v. 3. p. 384.):—

"The republican form of government seems to be the principal support of the present grandeur of Holland. The owners of great capitals, the great mercantile families, have generally either some direct share, or some indirect influence, in the administration of that Government. For the sake of the respect and authority which they derive from this situation, they are willing to live in a country where their capital, if they employ it themselves, will bring them less profit, and if they lend it to another, less interest; and where the very moderate revenue which they can draw from it will purchase less of the necessaries and conveniences of life, than in any other part of Europe. The residence of such wealthy people necessarily keeps alive, in spite of all disadvantages, a certain degree of industry in the country. Any public calamity which should destroy the republican form of government, which should throw the whole administration into the hands of nobles and of soldiers, which should annihilate altogether the importance of those wealthy merchants, would soon render it disagreeable to them to live in a country where they were no longer likely to be much respected. They would remove both their residence and their capital to some other country, and the industry and commerce of Holland would soon follow the capitals which support them."

Adam Smith attributes the grandeur of the celebrated republic of Holland, "that sober and religious "country," to some direct share or indirect influence enjoyed by the great mercantile families in the administration of the Government, and to the respect and authority which they derived from this position. The power of conferring distinction prevails in a limited monarchy, such as Great Britain is blessed with, in a far greater degree than in a Republic. I think Burke has somewhere said that honours are

"the cheap defence of nations;" they are also the cheap rewards of merit. May we not regret that more distinction does not attend successful commercial enterprise? We find that valour and devotion to the cause of duty are rewarded with stars and titles in the army and navy; that coronets are showered down upon the learned in the law; that the church offers its peerages; and that the possession of landed property confers privileges in the country. But what *honours* await successful commercial enterprise?—the discoverer of new sources of wealth and of civilization?

Are the acquirements of the intelligent merchants, who constitute the Great Mercantile Republic, so inferior to those of the so-called learned professions that they are unworthy of *any* distinction? Is the knowledge of modern languages, grounded upon an early proficiency in the dead languages, combined with a knowledge of commercial law, of the productions of different countries, of the wants of each, and the mode of supplying the deficiency of one by the abundance of the other, of no value in the wide field of knowledge? Are the social habits acquired by intercourse with the individuals of every commercial community of the globe to be regarded as useless? Are the anxieties and hazard incurred in opening new sources of commerce, carrying civilization among the untutored tribes of the earth, to be disregarded? Are the discoveries in mechanical science to be unrewarded, providing employment for our operatives, and adding to the comforts and enjoyments of civilized life? Is the literature of the ancients the only source of knowledge; and the attainments of practical science to sink into insignificance, compared to the pure mathematics?

Far it be from me to undervalue the discoveries of abstract science or the pursuits of literature: but it would not dim the lustre of the star which worthily decorates the military and the naval hero, if some portion of its splendour were allowed to shine on those

who have been instrumental in rearing the sailors, and in furnishing the means of maintaining both the army and the navy.

Would not a participation in honorary distinctions have the same effect on our commercial and manufacturing population that Adam Smith attributed to the distinctions of the merchants of Holland?—would it not tend to elevate the mercantile and manufacturing character?

The ancient Guilds were productive of distinction in former times, and may not the present age require a participation by the *influential* members of the mercantile and manufacturing community, in those marks of the Sovereign's favour, which confer dignity on honourable enterprise and practical science?

If a failure in commercial engagements, if the discredit of having passed through the ordeal of the Insolvent or Bankruptcy Court were to render the party ineligible, and be declared a cause of exclusion, if elected, would it not have a great effect in raising the character of the merchant in his own estimation, and in that of the public?—and who will say that the character of the merchant and of the manufacturer does not require elevation?

The modern theory is not so novel as many may suppose. Mr. Gilbart published his "History of Banking in America" in 1837, and he gives the following extract from Mr. Biddle's description of the operation of the currency upon the exchange in America, published a few years before:—

P. 112.:—

"The operation proceeds thus: by issuing no new notes, but requiring something from your debtors, you oblige them to return you the bank notes you lent them, or their equivalents. This makes the bank notes more scarce—this makes them more valuable—the debtor in his anxiety to get your notes, being willing to sell his goods at a sacrifice—this brings down the prices of goods, and makes every thing cheaper. Then the remedy begins. The foreigner, finding that his goods must be sold so low, sends no more. The American importer, finding that he cannot make money by importing them, imports no more. The remainder of the coin, of

course, is not sent out after new importations, but stays at home where it finds better employment in purchasing these cheap articles; and when the foreigner hears of this state of things he sends back the coin he took away. He took it away merely because your own domestic productions were so high that he could not make any profit in his country by taking them. But when the news reaches him that his productions are very cheap in our country, he will also learn that our productions are cheap too, and he sends back the coin to buy these cheap productions of ours. We therefore get back our coin by diminishing our paper, and it will stay until drawn away by another superabundance of paper. Such is the circle which a mixed currency is always describing. Like the power of steam, it is eminently useful in prudent hands, but of tremendous hazard when not controlled; and the practical wisdom in managing it lies in seizing the proper moment to expand and contract it, taking care in working with such explosive materials, whenever there is doubt, to incline to the side of safety. These simple elements explain the present situation of the country.

"Its disorder is overtrading, brought on by overbanking. The remedy is, to bank less and to trade less."

The disorder is stated to be "overtrading brought on by overbanking." In other words overtrading brought on by overlending. The remedy is "to bank less and to trade less." In other words to lend less, and to trade less.

The United States Bank of Pennsylvania was established to supply, in a degree, the place of the Bank of the United States: Mr. Biddle was president of this bank, which failed, involving many in ruin.

One cannot but admire the complacency with which Mr. Biddle describes the "operation" of banking. "The debtor in his anxiety to get your notes, being willing to sell his goods at a sacrifice: this brings down the prices of goods, and makes every thing cheaper. Then the remedy begins."

The unfortunate debtors are subjected to these low prices inducing loss and ruin to many, because the coin was exported, or in order to bring it to the Bank — the country is to be subjected to these ruinous prices, not perhaps so much on account of imprudence in borrowing too much, as on account of the imprudence of the bank in lending too much — the bank cannot perform its engagements and

the community suffers. As to the paper becoming scarce and " more valuable," the paper represents the promise to pay the gold and silver, and cannot be more valuable *relatively to the coin.* The *loan* is more valuable: the Bank, in order to be able to pay its own debts, distresses all those who are holders of goods or produce. Can any thing be more monstrous? Shall we designate this " operation," "simple elements!" "wisdom in management?" And who are exposed to these "explosive materials;" this "power of steam! " this "tremendous hazard?" The United States Bank, in its "wisdom in management," contracts when needful, the issue of notes, in other words presses upon its debtors, and indiscriminately upon the whole trading community which may be within its influence.

Lord Overstone, (4193) in his evidence, made a statement of the extensive failures and losses in the United States in 1837, 1839, and 1840.

By the establishment of a commercial and exchange bank, for the safe custody of silver and gold, and also for the payment of foreign bills of exchange in bank money, we should separate the merchant and manufacturer, in these respects, from the Bank of England, and from all other banks: and we should give no person a control over the precious metals except the owner, as the bank money, not being a legal tender, would be a commodity in England, we confine the exportation to a commodity.

We should not export the *money* of Great Britain, which is gold *coin,* for although gold coin be received at the exchange bank, yet it would not be received as *money* but as a commodity exchangeable for the national money at a certain ratio. It would not be national money, when expressed in bank money. The national money would be a commodity to the foreign merchant, and the international money would be a commodity to the home trader.

There would be no confusion of moneys, no confusion of interests, no mystery of exchange; no em-

barrassment arising from the exportation of the precious metals; the question of demand would be resolved as respects the exportation of gold and silver, into a question of *ownership* and *possession;* the question of exchange into a question of the expense of transporting the gold and silver from one country into another; the quantity of precious metals in deposit would be determined by the wants of the *owners*, and the wants of trade. Credit would follow ownership, and not property held *on trust.* The premium on gold or silver would be determined at the exchange bank, and would not enter into calculations of foreign exchange. Compare the simplicity of such calculations with the complexity of the present calculations — a fixed weight for a variable value. All alarm ceases respecting the importation or exportation of the precious metals and all confusion of language.

The more enlightened principles of the present age have determined on the discontinuance of bounties and of prohibition; and on the substitution of moderate duties for revenue, instead of high duties for protection, on most articles of importation. Our intercourse with our colonies, and our treaties with foreign nations are no longer made subservient to the balance of trade, or to a monopoly in favour of our own country.

As far as the *country* is concerned, the principles of the mercantile system formerly in vogue are abandoned; and the principles of free trade, in comparison with the old system, adopted. The *country* is in harmony with *commerce;* and the monopoly of exclusive companies established for private and particular interests, has given way to the rights of unshackled enterprise and *general* advantage.

But the *monetary* system has succeeded to the *mercantile* system; more pernicious principles are now to be adopted for the safety of the Bank of England than could be maintained for the supposed benefit of the country. The Bank of England is more powerful than the country, and will continue to be so, as

long as the delusion prevails that evasion of a promise is equal to its performance; and that the claims of the bank to protection are superior to the law of justice.

Instead of impolitic discouragements of importation, and encouragements of exportation, by drawbacks and bounties, and prohibitions, and treaties, and colonies, and high duties, to "increase the quantity of gold and silver in the country, by turning the balance of trade in its favour:" we now adopt the more direct and efficient mode, of lowering prices to increase the quantity of gold and silver in the Bank of England, by turning the exchanges in our favour.

CHAP. XXIX.

LORD BACON ON TRUTH. — ADAM SMITH ON LOWERING THE VALUE OF MONEY — ON EVASION OF PAYMENT. — LORD KING ON THE BANK RESTRICTION. — SUNDRY REMARKS.

LORD BACON, "Essays moral, economical and political." Of Truth, p. 3.:—

"To pass from theological and philosophical truth to the truth of civil business, it will be acknowledged even by those that practise it not, that clear and round dealing is the honour of man's nature, and that mixture of falsehood is like alloy in coin of gold and silver, which may make the metal work the better, but it embaseth it; for these winding and crooked courses are the goings of the serpent, which goeth basely upon the belly, and not upon the feet."

P. 4.:—

"Surely the wickedness of falsehood and breach of faith cannot possibly be so highly expressed as in that it shall be the last peal to call the judgments of God upon the generations of men: it being foretold that when 'Christ cometh' he shall not 'find faith upon earth.'"

Adam Smith, b. v. ch. iii. vol. 3. p. 420.:—

"The raising the denomination of the coin has been the most usual expedient by which a real public bankruptcy has been disguised under the appearance of a pretended payment. If a sixpence, for example, should either by Act of Parliament, or Royal Proclamation, be raised to the denomination of a shilling, and twenty sixpences to that of a pound sterling, the person, who, under the old denomination, had borrowed twenty shillings or near four ounces of silver, would, under the new, pay with twenty sixpences, or with something less than two ounces."

P. 424.:—

"Nations have sometimes for the same purpose adulterated

the standard of their coin, that is, have mixed a greater quantity of alloy in it. If in the pound weight of our silver coin, for example, instead of eighteen pennyweights, according to the present standard, there was mixed eight ounces of alloy, a pound sterling or twenty shillings of such coin would be worth little more than six shillings and eight pence of our present money."

P. 421.:—

"When it becomes necessary for a State to declare itself bankrupt in the same manner as when it becomes necessary for an individual to do so, a fair, open, and avowed bankruptcy is always the measure which is both least dishonourable to the debtor, and least hurtful to the creditor. The honour of a state is surely very poorly provided for, when, in order to cover the disgrace of a real bankruptcy, it has recourse to a juggling trick of this kind, so easily seen through, and, at the same time, so extremely pernicious."

The "mixture of falsehood" in civil business is compared by Lord Bacon to the mixture of alloy in coin. In the opinion of the advocates of the new "monetary science," the "evasion of the promise" in bank notes will have the same effect as the mixture of alloy in coin of gold and silver, it will make the bank note, like the metal, "work the better;" and the substitution of the commodities of the manufacturers and merchants for the bullion, that *most convenient commodity*, which the Bank of England holds under a solemn engagement to deliver it to the bearer on demand, instead of being considered as embasing the promise or truth, is considered a legitimate mode of protecting the Bank of England.

The raising the denomination of the coin, the additional mixture of alloy in the coin, and the pressure upon credit, all act upon prices, and are adopted to evade the payment of a just debt, or the delivery of the gold deposited.

Mr. Francis, in his "History of the Bank of England," (v. i. p. 161.,) mentions, with approbation, a "stratagem" which the Bank of England had recourse to on the occasion of the "Pretender's" rebellion, by which alone "they escaped bankruptcy:"—

"Payment was not refused; but the corporation retained its

specie, by employing agents to enter with notes, who, to gain time, were paid in sixpences; and as those who came first were entitled to priority of payment, the agents went out at one door with the specie they had received, and brought it back by another, so that the *bonâ fide* holders of notes could never get near enough to present them. 'By this artifice,' says our authority, somewhat quaintly, 'the bank preserved its credit, and literally faced its creditors." The wisdom of the artifice was witnessed in its effect. The London merchants, with honourable promptitude, called a meeting of their body at Garraway's Coffee House. They expressed their confidence in the Bank Corporation, and agreed to receive its notes in payment."

This was an effectual mode of protecting the specie from being exhausted; and, accompanied by the "resolution" of the merchants and others, a less mischievous mode of meeting the difficulty than a pressure upon credit by a national bank, affecting the prices of commodities generally.

This was an effectual mode of preventing the bank being drained of its bullion or coin; would this, according to the modern theory, be called a *scientific principle?* If the impossibility of being drained of the bullion is the only test, this should surely be called a *scientific* mode.

This would hardly be contended for by the most ardent admirer of the present system; it would be acknowledged that it was a stratagem, an artifice, a discreditable mode of evading the payment of the notes. Is not every evasion a discreditable mode? The success of the plan will not justify it; any successful act of power, in spite of right or justice, may be vindicated on this principle.

Montesquieu observes, in his concise manner, (ch. xiii. liv. 5.,) "Quand les sauvages de la Louisiane "veulent avoir du fruit, ils coupent l'arbre au pied, "et cueillent le fruit. Voilà le gouvernement des- "potique." "When the savages of Louisiana want "fruit, they cut the tree at the foot, and gather the "fruit. Behold a despotic government."

The Bank of England may be said to exercise a despotic power, in case of need, over the trade of

the country, and, to a certain extent, a destructive power over the commerce that provides the bullion.

Lord King, in his pamphlet on the Bank Restriction of 1797, observes, p. 83. :—

" A due regard to *general rules*, and especially to the great rules of property, forms a most important part of the duty of a legislator. They are the foundations of all private and political security."

P. 84.:—

" A law to suspend the performance of contracts has been suffered to remain in force upwards of six years. A power has been committed to the directors of the bank, which is not intrusted by the constitution even to the executive government; a power of regulating, in a certain degree, the standard of the currency of the kingdom, and of varying this standard at their pleasure. A precedent has been established, by which, upon any suggestion of temporary expediency, the whole personal property and monied interests of the country may be committed to the discretion of a commercial body not responsible to the legislature and not known to the constitution."

"This extraordinary measure, which originated in embarrassment and temporary difficulties, has been suffered to continue from mere inadvertence. Neither the public nor the legislature appear to have considered to what consequences such proceedings ultimately tend. Had Parliament been called upon to authorize any of those direct frauds upon the currency which have often disgraced arbitrary governments, had it been recommended to them to raise the denomination, or to diminish the value, of the current coin, there can be no doubt that such a proposal would have been rejected with indignation. Yet an abuse of the same nature has been established by law in this country. The power of reducing the value of the currency, by a silent and gradual depreciation, is more dangerous from the very circumstance of its being less direct and less exposed to observation."

The preceding very just remarks are worthy of the consideration of the advocates of the "exclusive powers and great privileges," at present conferred upon the Bank of England by the Act of 1844.

The power of raising the value of the currency is the same abuse as the power of reducing the value of the currency, which is here considered in the same light as raising the denomination or diminishing the value of the current coin: it is, in fact, to raise or lower the prices of commodities.

It appears to me, that instead of watching the period when the war should terminate, six months after which, the Bank of England was, by the Act of Parliament, bound to resume cash payments, we are now directed to watch the increase or diminution of bank notes in the coffers of the banking department, called the reserve; instead of a bank restriction terminating with the war, when low prices were to be expected that gold might flow into the bank, the country is to watch the diminution or probable exhaustion of the reserve, and to regulate commerce accordingly: the bank has all the immunity of a bank restriction when its coffers are abundantly supplied; and can impose the stringency of the former return to cash payments, when the stock of gold or the reserve is reduced to an amount inconsistent, in the opinion of the directors, with the safety of the bank. Instead of one return to cash payments at a definite period, the country is subject to the same loss and distress at different undefined periods, perhaps at intervals of seven years.

Louis XI., of France, (A.D. 1483,) was the last of the kings who raised a revenue, in their necessities, by tampering with the coins; having a meadow, as this same king said, which they could at their pleasure mow; alluding to the power of taxation. (Ayant un pré qu'ils tondent quand bon leur semble.*)

Will the advocates of the present system of the bank monopoly say that they need no more a bank restriction, having a meadow, *in the commodities of others*, which the directors can mow at pleasure?

* Le Blanc, p. 351.

CHAP. XXX.

T. W. WEGUELIN, ESQ., ON THE EXCHANGES. — ON THE BANK OF ENGLAND HOLDING THE RESERVES OF BULLION. — ON THE MORAL RESPONSIBILITIES OF THE BANK. — ON SCIENTIFIC AND MECHANICAL PRINCIPLES. — LE BLANC AND BAZINGHEN ON THE FRENCH COINAGE. — ON THE GOLD AND SILVER STANDARD, AND BANK NOTES AND COIN. — ISSUES OF ENGLISH, SCOTCH, AND IRISH BANKS. — REMEDIAL MEASURES SUGGESTED.

T. W. Weguelin, Esq., the Governor of the Bank, states in his evidence before the committee of 1857:—

606. "The meaning of a favourable exchange is, "that your importations shall be in amount less than "your exportations: and therefore the foreign trade "must ultimately pay for any demand which has been "made upon it for any such sudden contingency as "you have alluded to" (a bad harvest).

607. "I wish to point out that the power of the bank "to act upon the exchanges is very small. It must "be the trade of the country which must influence "the exchanges. All that the bank in such a case "can do, is to defend its own position; and holding "the reserves of the country at that moment, no doubt "its position becomes a matter of very considerable "interest and importance; but it can only do that. "The trade of the country must right itself." (See p. 252.)

This evidence is quite in accordance with the new system of banking which exonerates the Bank of

England from providing the bullion, at the same time that the bank is the depository of bullion, for which it has given promissory notes or a bank credit; it treats the foreign trade as a corporate body, just as the country was treated as a corporate body by Sir Charles Wood and Mr. Cardwell (p. 240. 293.), instead of the foreign trade consisting of the business of merchants, independent of each other, and each responsible only for his own conduct. But the foreign trade does not alone pay for the bullion required for the discharge of debt incurred by an excess of imports over exports; the foreign merchant is exposed, in common with others, to the depreciation of his property occasioned by the low prices of commodities, produced by the action of the Bank of England, in order "to defend its own position" — but the *exporter may* be benefited by the low prices of the commodities which he exports. Those who suffer from the depreciation of property are those who hold goods and manufactures, and those who produce those goods and manufactures; not only all the great interests, whether commercial, manufacturing, or agricultural, are exposed to this depreciation, but the owners of funded property, of foreign securities, and what is worthy of the gravest consideration of the State, the labourers employed in commerce, or manufactures and agriculture, those whose property is their labour. Let the State ponder on these things. I submit that if "the trade of the country must right itself," if the foreign trade must find the bullion, it should retain it, in order to be able "to right itself."

Sir Robert Peel's Bill assumes that a secure circulation of promissory notes can be obtained only by the *monopoly* of the Bank of England, and that the Bank of England must necessarily issue more promissory notes than they can pay in gold on demand; and that to supply this gold which may be wanted, beyond what they can pay from their own coffers, it is essential that the bank should have the power of increas-

ing the *value* of the currency; in other words, of lowering the prices of commodities, whenever the directors are under the apprehension that the demand for gold for exportation will exceed their power of paying the gold on demand, which they have promised, or undertaken to deliver.

In common morality, the remedy for want of ability to perform a promise, is not to make the promise, and for an inability to perform a contract is not to make the contract.

The nation composed of separate individuals labours under no natural incapacity to refrain from making a promise, and under no natural inability to limit its promise to that extent which it can perform. A nation that can from the private resources of individuals furnish the capital for the construction of railroads to the extent of nearly 300,000,000*l.*, could surely furnish, in the absence of the foreign demand for bullion, on the plan I suggest, the means of paying its promissory notes, or satisfying the holders of promissory notes with coin to the extent of one-fifth or one-fourth of forty millions, and for every note of which they receive an immediate equivalent, and which notes cost them comparatively nothing.

Is this question incapable of solution? Certainly Sir R. Peel discovered no solution, by his own confession: either his bill or the former state of things bounded his view of change or remedy. (Debate, May 10th, 1847.) *Hansard.* (See p. 230 *antè.*)

The capital or dead stock invested in gold and silver, although it yields no revenue, is yet the most secure from loss, and the most available of any capital in case of need.

If turnpike-roads are not frequented they are useless, and the capital is lost in making them — the same may be said of railroads; the same of unproductive mines: not so with the precious metals; as capital they retain their value.

The *moral responsibilities* of the Bank of England,

as implicated in the system adopted by the directors, appear not to have been duly considered by the Committee of the House of Lords, nor by the Committee of the House of Commons, nor by any of the witnesses examined in 1848. They seem to have viewed the Bank of England as a great bank of circulation only, having a perfect right to manage their business and to withhold or pay away the gold deposited in their vaults, according to their discretion, keeping in view, as a paramount obligation, the convertibility of their notes. They did not consider that the Bank of England had become a warehouse of the Great Mercantile Republic, of the international traders, for the safe custody of the precious metals; not only the great national bank of circulation, but an *international* warehouse for gold and silver; that in their latter character, the Bank of England were simply storekeepers to receive and deliver the gold, and it is the want of this distinction which has created the mystery and the confusion, and thrown a veil over the injustice of the modern theory of banking or monetary science.

The committee would have properly expressed the position of the Bank of England, according to the power with which they would invest the directors if they had declared that they acknowledged the paramount necessity of the Bank of England providing for the convertibility of their promissory notes, and also "the right of the Bank of England to pro-"vide for this convertibility out of the gold or silver "deposited in their vaults, under an engagement to "restore it when demanded, and also to regulate the "prices of commodities in such a manner as to avoid, "in case of need, the payment of their promissory "notes, by checking or nullifying the demand." This would have brought, not the bank *management*, but the bank *morality*, fairly under review.

It is not the management in order to perform the promise, but the stringent action to defeat the demand for bullion which has brought so prominently forward

in the bank question the subject of the foreign exchanges, and the prices of commodities, with which the Bank of England should have no more concern than with freight and insurance, and the cost of articles abroad, which all enter into the calculation of the foreign merchant, together with the rate of exchange: these are all strictly within the province of the merchant, and with which the Bank of England and the London bankers, and the Joint-Stock Banks and the private banks, have no more right to interfere, than with the calculations of the longitude for steering the ship; and whose interference is as mischievous in the one case as it would be in the other. These subjects do not belong to the bankers, but are the peculiar province of the merchants trading with foreign countries.

Lord Overstone (4118.) — "I object to the course "adopted by the Bank of France, because it is what "I call quackery; it is not founded upon any scien-"tific principles. I approve of the course adopted "by the Bank of England for exactly the opposite "reason, because I think it is founded upon scientific "principles, and produces the desired result in the "most legitimate, and therefore in the most bene-"ficial manner." It will be seen that his Lordship approves of the Act of 1844, because "it is founded "upon scientific principles."

With due deference to his Lordship, I would ask, Is the obligation to pay debt, to perform a promise, "founded upon scientific principles?" Is the obligation to deliver bullion received on trust, to be delivered when demanded, "founded upon scientific principles?" These obligations rest upon a *moral* principle, which is imperative; and these comprise, it appears to me, all the obligations that rest upon *principle*. A rule of management which may vary according to circumstances, can hardly be called a *principle* or a *science*.

There can be no *science* in making the payment of the promissory note depend upon the retention of the

bullion, the property of another, and held upon trust; and in accomplishing this by means of a pressure upon credit and upon commerce, lowering the prices of commodities and securities, &c.

The "course adopted by the Bank of England" is rather founded on mechanical principles than "scien-"tific principles." The whole system appears to me to be one of mechanical contrivance: the issue department is a machine, which simply exchanges gold for notes, and notes for gold; the banking department is the purveyor of gold to feed the issue department, and contracts the circulation by withdrawing notes, or, agreeably to the modern practice, raises the rate of discount, as the bullion in the issue department decreases. 3811. "The paper notes are merely a me-"chanical contrivance, to be used for convenience "in lieu of that metal" (gold and silver). In the contemplation of the advocates of the system the promise of the governor and company of the bank is a mere name given to the "*representative of gold.*" 3740. "The bank paper is the representative of gold, "because it is the certificate of gold placed in deposit against it." And the party made responsible for the performance of the promise, by the needful supply of bullion and coin, is the country, and "the trade of "the country" (607.); there is no confidence required in the "fortune, probity, and prudence" of the bank; there is no moral obligation; the trade of the country is to be forced to provide the needful quantity of gold, by an action on the country, including *all* holders of produce and manufactures and holders of securities; the pressure by a reduction of prices is to be greater or less according as the issue department has more or less gold, or the banking department more or less reserve. "The country will never "bear a reduction of its notes to so low an amount as to "exhaust the bullion in the issue department" (4027.); the country and the trade will therefore supply the bullion, rather than submit to such a depreciation of prices. Here the system breaks down, because

the machinery of raising the rate of interest or withdrawal of notes acts not upon "stocks and stones;" the country consists of a community of rational beings, who will not sacrifice their property to feed the machine. The trade consists of the various interests of the commercial, manufacturing, and agricultural community, with the labouring population, who are more anxious to vindicate their rights of property than to minister to the wants of the Bank of England; and the Government must prefer the country to the bank, and with freedom of prices the system fails.

The histories of the French coinage by Le Blanc and by Bazinghen to which I have alluded, p. 22., afford an instructive lesson on the vanity of endeavouring to constitute both gold and silver coin as measures of value; as money in the payment of debt.

It was assumed as a principle that persons should have the power of paying their debts either with gold or silver money, according to their convenience; and it therefore became necessary to fix the proportional value of each, that one might not be cheaper than the other, lest it should be melted or exported. But this proportion, which was considered so essential, cannot be determined or permanently fixed; the relative value of gold to silver varies at the same moment in different countries, and in the same country at different times. The proportion between the mark of gold and the mark of silver was frequently altered, but without accomplishing the object in view, to prevent the exportation of the coins, or to prevent the people giving more silver coins for the gold coin, than by the edict was fixed.

Lord Liverpool informs us that when gold and silver coins were both money or standards of value, the same inconvenience was felt in this country, on account "of the many and sudden changes in the "relative value of these metals," from the 2nd of James, inclusive, to the 15th of Charles II.

P. 57 : —

" The ministers who then served the Crown, among " whom were men of great knowledge and talents, " and particularly Sir Francis Bacon, the first philo- " sopher of the age, had frequent consultations on " this subject, by order of their sovereign, and they " took the advice of merchants, bankers, and other " persons, supposed to be best versed in a business of " this nature; but they were never able to discover " any sufficient remedy for the evil."

P. 58 : —

" It soon became evident that the last-mentioned " rise of the value of gold in the coins of this kingdom " was not sufficient to make it equal to the relative " value of gold to silver at the market. King James, " therefore, was under the necessity, in the ninth " year of his reign, of further raising the value of " his gold coins ten per cent. Experience, however, " soon proved that the Government had now erred " in the opposite extreme, and that this rise was too " great; for it appears, from undoubted testimonies, " that, subsequent to it, the silver coin began to be " exported, in like manner as the gold coin had been " before."

I have shown, I think, in a former part of this treatise that neither Locke, nor Sir Isaac Newton, nor Adam Smith, nor Lord Liverpool expounded the true principle of the coinage of gold and silver coins, which is, that only one coin of one metal should be the standard or measure of value, and that all other coins of the other metal should be rated in their exchange with this coin, which only should be legal tender in the payment of debt to any amount, at a rate above their proportional value as gold or silver; that these coins should be considered as tokens, or rather as merchandise, seeking and finding, in their exchange with this legal tender coin, the best market, and coined only by the State; upon this principle was formed the plan I have suggested (Chapter V.) for changing, if thought expedient, the

gold to a silver standard, and which I formed many years before the introduction of Sir Robert Peel's Bill, and on a principle which I may be allowed, perhaps, to say, I had never heard or read propounded by any one.

It appears to me, and I am strongly impressed with the conviction, that the same false principle now prevails respecting bank-notes and gold that formerly existed between the gold and silver coins. The attempt was then to make the gold and silver coin perfectly equivalent, in order that there might be no inducement to export either coin on account of one being cheaper or more valuable than the other; the vain attempt to establish two measures of value; two legal standards and tenders. The attempt is now made to establish an equivalency between gold and bank-notes, between paper money and gold money, in order that both may be of equal value, and that there may be no inducement to exchange the note for gold; the attempt is made to constitute both a measure of value,—in fact, to have two measures of value — two standards: a double standard.

As the remedy for the inconvenience of a double metallic standard, of gold and silver, is to *degrade* the coins of one of the metals from money to merchandise; so the remedy for the inconvenience of a double standard of bank-notes and gold, is to *elevate* the promissory note to the dignity of a moral obligation, of a *promise*, to be tested by truth in its performance.

We treat the gold coin and the bank-note as if both had intrinsic value, and had the same relation to each other as gold and silver coin.

As by raising the value of the gold coin in exchange with the silver coin the gold coin was retained in the kingdom, and by raising the value of the silver coin in exchange with the gold coin the silver coin was retained in the kingdom, so, by increasing the value of the bank-note *by scarcity* the attempt is made to retain the gold coin in the kingdom; but this cannot be accomplished until, in

the words of Locke, (p. 233, *antè*,) "Scrips of paper "can be made current coin."

Locke thought it ridiculous to suppose "that bills "of exchange" or "scrips of paper" could be "made "current coin" to pay debts abroad.

Locke was not aware of the cabalistic power of "pressure," "contraction," and "the screw," to make scrips of paper, promissory notes,—not current coin indeed, but commodities wherewith to pay foreign debt.

Locke and Adam Smith, in their simplicity, thought that a promise to pay ten pounds or ten sovereigns meant that the person who promises should pay the sovereigns — they never elevated their minds to the grand conception, that the promise was to be evaded by forcing the merchant or producer to deliver ten pounds' worth of goods at prices so reduced as to make these goods more valuable for exportation than the coin or gold.

Can any thing be more unjust? more contrary to common sense or to "clear and round dealing?"

Sir Robert Peel. (P. 22.) "I must state at the "outset, that in using the word money, I mean to "designate by that word the coin of the realm, and "promissory notes payable to bearer on demand."

This involves, I think, the fallacious and mischievous principle of attempting to have two sorts of money, promissory notes and coin—a double standard, the bank-note and the sovereign: the one having the world for its market, and current according to its intrinsic value; the other having no intrinsic value, current only in the national circulation, depending only upon moral obligation. We bring to the test of the scale the gold coin and the promissory note, the paper pound worth of goods, and throw in the sword of "Brennus" to make up any deficiency of weight or value.

I hope it will not be supposed that in the remarks I venture to make upon the Act of 1844, or upon the opinions expressed by the witnesses, or by the

Governor and others connected with the Bank of England, that I wish to convey the most distant notion of their being influenced by other than honourable motives and honest conviction. To suppose otherwise would be equally unjust and presumptuous; it is the *system* which I am desirous of placing in what I conceive to be a true light. Sir R. Peel lauds the conduct of the Bank Directors in most eulogistic language, and they may be deserving of the praise of acting in strict conformity with the Act of Parliament; but the soundness of a system does not depend upon *management* but upon *principle.* I think the system founded upon a totally mistaken principle, supported by the delusion, that what is morally and socially unjust can *under any circumstances* be right in "civil business" or in Banking; that the performance of a promise can be evaded with impunity, and that mischief will not necessarily follow wrong. No management or expedient can supply the place of a moral principle.

I think I have sufficiently explained the principles upon which I conceive the coinage and the currency should be founded. I have quoted largely from Adam Smith, who received this eulogy from Sir Robert Peel, in a debate on the currency, on December 3rd, 1847 (see p. 238., *antè*). "Some eighty "years ago the greatest writer that ever treated upon "the subject of political economy; the author who "stands in the same relation of pre-eminence to all "those who have subsequently written upon the sub- "ject in which Sir Isaac Newton stands to his followers "in the sublimer science of astronomy" (Hansard).

It is known that this eminent author was in favour of competition of issue by Banks of circulation, as expressed in the extract, p. 237., *antè* (B. 2, cap. iii., vol. 2, p. 82. "If Bankers are restrained, &c.")

The authority of Adam Smith is strengthened by the evidence of Mr. Bell (p. 329., *antè*)*, and by the experience of the Scotch Bankers, whose circulation

* See also p. 191., antè.

was kept down by competition, to the small sum of about three millions; and by the experience of the English country Banks, whose issues are much below the amount which, by the Act of Parliament, they are allowed to issue, as the following statement shows:—

The English private Banks are below their fixed issue - - - - - -	£1,333,356
The ditto Joint Stock Banks, ditto -	829,182
	2,162,538

"Evening Mail," February 24, 1858.

While the Scotch and Irish Banks show that the Issue, under the restraint of competition, will still adjust itself to the wants of the community:—

The Scotch Banks are above their fixed Issue - - - - - - -	£933,339
The Irish ditto below ditto - - -	416,460

Considering also what Lord Liverpool observes, p. 227., "It ought always to be kept in remembrance, "that this paper currency was issued to so great an "excess, either by corporate bodies, under the au-"thority and protection of government, or directly by "the government itself, and not on the sole credit and "responsibility of unauthorised individuals,"— considering also that the circulation of private and Joint Stock Banks, *can never lead to a bank restriction in their favour*, that, if thought expedient, their circulation may be made secure by any conditions that the government may think proper to exact, I submit that the Monopoly of the Bank of England should cease and Competition of Issue be the rule of circulation.

How severe is the sarcasm implied by the Bank Act of 1844! Is it true that the Great Mercantile Republic is so fallen, that the international traders of the world, and especially of Great Britain, have not the "fortune" needful to meet their engagements, the "probity" to make only such engagements as they can meet, and the "prudence" required to manage their own business? Is it true that in Great Britain are not to be found bankers who have the

"fortune, probity, and prudence," that should entitle them to the confidence of the public, and to the management of their own business? That merchants and bankers must look to the reserve in the banking department of the Bank of England, as their guiding star? That instead of relying upon their own resources, upon their own character and reputation, every banker, and merchant, and tradesman, every mechanic and labourer, must watch the increase and diminution of this reserve, must "make gold his hope," and say "to the fine gold, Thou art my confidence"?

And who are these merchants and manufacturers who are supposed incapable of managing their own business? Are they not the men whose ships cover the ocean, who trade from one part of the globe to the other, supplying the wants of each; whose credit instead of being confined to local districts, or to one nation, embraces the whole civilized world for its field of action; whose commodities to the amount of millions traverse the Atlantic and Pacific Oceans, upon the faith of a bill of lading for their safe delivery, and which are intrusted to correspondents thousands of miles distant, simply upon confidence in their "fortune, probity, and prudence"? Are the members of this great community unworthy or unwilling to keep possession, for their own advantage, of that gold and silver, which may be required for the payment of their debts abroad, or in the "round-about foreign trade of consumption"?

In my humble opinion, nothing could be more unwise or more perilous than to renew the Charter of the Bank of England for any given period: until a new *system* is introduced, the present Act authorizing the legislature to annul the Charter after twelve months' notice, should, it appears to me, be the only concession to the Bank of England. The recent discoveries of gold in California and Australia, greatly augment the danger of the present system: let it be remembered that wages do not rise contemporaneously with the prices of provisions, and we may be on the

verge of a change in the value of the precious metals of the same nature, as resulted from the discoveries in America about two centuries ago.

Let those who would know the inconvenience and danger of interfering with the circulation of coins upon a false principle, consult the pages of Le Blanc, of M. Abot de Bazinghen—they will there see the misery it occasioned to the people and the danger it threatened to royalty, the complaints and the seditions it gave rise to. Let us learn from the experience of our own times, the losses and misery produced by tampering with credit, with the paper currency, by a departure from the sacredness of a promise expressed in the tenor of the bank-note.

I am aware of the caution required in changing any system of currency and banking which has been long established, but we may move with confidence when conscious of walking in the path of duty.

Lord Overstone (4151, 4153,) appears to lay stress on the Legal Tender Clause, and would have the Bank of England note made a legal tender in Ireland and Scotland.

Sir Robert Peel (p. 47.) did not attach great importance to the retention of the Clause, but approved of its continuance as increasing the control of the Bank of England over the currency, and familiarizing the country with the circulation of Bank of England notes.

It would certainly be conformable to the great principles of Truth and Justice, that every banker should be obliged to pay his promissory notes in the coin which, by the tenor of the note, he promises to pay, and this should be the ultimate object in view; there would then be so many deposits of coin as there were Banks, and so many funds of coin to supply the wants of the country, and the Banks might mutually assist each other in case of need; the Bank of England note would, upon a reduced scale of circulation, still command the confidence of the public, and has never hitherto been discredited. If the retention of the Clause for a time is thought of importance by

the country Bankers, the privilege might be continued to them for a given period, but disallowed to the Banks in London and the non-issuing banks, with the grant of the privilege of circulation; being a concession which they do not now enjoy, the privilege of issue might be accompanied with what conditions were thought needful.

The country bank-notes cannot be exchanged at present for bullion, and do not therefore press upon the Bank of England.

We have no means of judging of the capital and deposits of the London Bankers, but the following statement shows the magnitude which the London Joint Stock Banks have attained, and from this statement we may form some judgment of the importance of the other Banks:—

The following statement of the capitals and liabilities of eight joint stock banks in London, appeared in the "Evening Mail" of Feb. 5, 1858: —

Banks.	When founded.	Paid up capital.	Deposits and current accounts.
		£	£
London and Westminster, 6 branches - -	1834	1,000,000	13,889,021
London Joint Stock, 1 branch - - -	1836	600,000	10,737,580
Union Bank of London, 3 branches - -	1839	600,000	9,645,913
London and County, 65 branches - -	1839	500,000	3,533,425
Commercial Bank of London, 1 branch -	1839	300,000	821,626
City Bank - - -	1855	300,000	1,388,933
Bank of London, 1 branch	1855	300,000	1,114,843
Unity Bank, 3 branches	1855	150,000	139,774
		3,750,000	41,271,115

With guarantee funds £708,197. Dividends from 6° to 22½ per cent. per annum.

Can it be doubted that if the monopoly of the Bank of England were to cease, other banking establishments would be commensurate with the wants of the community? and are not such establishments worthy of being intrusted with the issue of promissory notes? and will not the rivalry of such banks confine that circulation to the limit required by the wants of the community, as happens with the country banks?

The circulation of the Bank of England would necessarily be curtailed by the issues of other banks in the London district, and might be reduced on the plan suggested in Chapter 17, which would be applicable to all banks, to an amount that should no longer give it a control over the prices of commodities, or over the commerce of the country.

I submit, that the first two things to be accomplished should have reference to the circulation of the Bank of England, and the demand for bullion for exportation.

I submit, that the *foreign merchants* might without delay establish an exchange bank and international treasury, as suggested in Chapter 7. May I venture to recommend the consideration of this to the enlightened merchants of commercial associations, and chambers of commerce?

I submit, that the Bank of England should have nothing to do with the exportation and importation, or with the trade, of bullion. It is a commodity which should be viewed, with regard to the foreign trade, in the same light as tobacco or sugar, and should be included by the Chancellor of the Exchequer in the financial statement of exports and imports; if not included, and one million of manufactures were exported to Australia, for which the return was made in gold, the country would appear to export to the value of one million, for which no equivalent had been received, and the exports would seem to exceed the imports one million, when both were equal.

The terms of currency, circulation, and exchange

are supposed to be so mysterious by the generality of the public, that few individuals think themselves qualified to form a judgment on the subject; I have endeavoured to dispel the mystery, and to show that the elements are simple, and rest upon the immutable basis of Justice and Truth.

——— Si quid novisti RECTIUS istis,
Candidus imperti.

APPENDIX.

A.D. 1774. ANNO DECIMO QUARTO GEORGII 3. CAP. 42.*

AN Act to prohibit the importation of light silver coin, of this realm, from foreign countries into Great Britain or Ireland; and to restrain the tender thereof beyond a certain sum: —

Preamble.

"Whereas considerable quantities of old silver coin of "this Realm, or coin purporting to be such, greatly below "the standard of the Mint in weight, have been lately "imported into this Kingdom, and it is expedient that "some provision should now be made to prevent a prac-"tice which may be carried on at this time to the very "great detriment of the publick:" Be it, therefore, enacted by the King's most excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal and Commons, in this present Parliament assembled, and by the authority of the same: That from and after the first day of June, One thousand seven hundred and seventy-four, all silver coin of this realm, or any money purporting to be the silver coin of this realm, which is not of the established standard of the Mint in weight and fineness, shall be prohibited to be imported or brought into the Kingdoms of Great Britain or Ireland from foreign countries: and if any silver coin being or purporting to be the coin of this realm, exceeding in amount the sum of Five Pounds, shall be found by any officer of His Majesty's Customs, on board any ship or vessel, in any port, harbour, haven, or creek, or in any boat, barge, or other vessel upon the water within the said kingdoms, or in the custody of any person coming directly from the water-side, or upon the information of one or more person or persons, in any house, shop, cellar,

After June 1, 1774, all coin of this kingdom, or purporting so to be, not of the established standard, prohibited to be brought into this kingdom; and all such coin found in ships, &c., on search, in terms of Act 14. Car. 2. to be seized and committed to the Custom House warehouse.

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* See p. 17. antè.

warehouse, room, or other place, on a search there made in such manner as in and by an Act made in the fourteenth year of the reign of the late King Charles the Second, intituled "An Act for preventing frauds and regulating abuses in His Majesty's Customs," is mentioned and directed, if such search is made in Great Britain, or according to the manner directed by any Act of Parliament made in Ireland, relative to the searching for uncustomed and prohibited Goods in that Kingdom, if such search is made there; it shall and may be lawful for such officer to stop and put such coin in His Majesty's Custom House Warehouse, in the port next to the place where such stop shall be made. And if it shall appear, upon examination there, to the Collector or other principal Officer of the Customs of the said port or place, that such silver coin is of the established standard of the Mint, in weight and fineness, the same shall upon demand, be forthwith delivered to the Owner or Proprietor thereof, without fee or reward, and such officer or officers, or any person or persons acting in his or their aid or assistance, shall not be liable to any action, suit, or prosecution, for searching, stopping, or detaining the same; but if such coin, or any part thereof, shall be less in weight than the established standard of the Mint, that is to say, at and after the rate of sixty-two shillings to every pound Troy, whether the same be in crowns, half-crowns, shillings, sixpences, or pieces of a lower denomination, or of less fineness than eleven ounces two pennyweights of fine silver, and eighteen pennyweights of alloy in the pound Troy, the same, or such part thereof as shall be deficient, either in weight or fineness, as aforesaid, shall be forfeited, and shall and may be seized by any Officer of the Customs, and prosecuted in any Court of Record in Westminster or Dublin, or in the Court of Exchequer at Edinburgh; or if such coin shall not amount in value to the sum of Twenty Pounds, in that case the same shall and may be prosecuted in a summary way before any two of His Majesty's Justices of the Peace for the County, City, or Place where such seizure shall be made, at the election of the Commissioners of His Majesty's Customs in Great Britain, or the Commissioners of Revenue in Ireland, or any three or more of them respectively, in such and the like manner, and by the same Rules and Regulations, as any forfeiture incurred by any Law of the Revenue, may be sued for and recovered, in the Kingdom of Great Britain or Ireland respectively. And, after condemnation, the same shall be melted down, cut, or otherwise defaced, in such manner as the said Commissioners of His Majesty's Customs and Revenue respectively shall direct; and one

If such silver coin be the established standard weight and fineness, it is to be restored to the proprietor;

but if deficient in weight or fineness, to be forfeited;

and prosecuted at Westminster, Dublin, or Edinburgh;

after condemnation, to be melted down; and one moiety go to his Ma-

moiety of the produce arising from the sale thereof, after being so melted down, cut, or defaced (first deducting the charges of prosecution and sale), shall be to the use of His Majesty, his heirs and successors, and the other moiety to such officer of the Customs as shall sue and prosecute for the same. jesty, and the other to the prosecutor.

II. And be it further enacted, by the authority aforesaid, That no tender in the payment of money, made in the silver coin of this realm, of any sum exceeding the sum of Twenty-five Pounds at any one time, shall be reputed in law, or allowed to be, a legal tender within Great Britain or Ireland, for more than according to its value by weight, after the rate of five shillings and twopence for each ounce of silver; and no person to whom such tender shall be made shall be any ways bound thereby, or obliged to receive the same in payment in any other manner than as aforesaid; any law, statute, or usage to the contrary notwithstanding. No tender exceeding 25*l.* shall be allowed legal for more than its value.

III. And be it further enacted, by the authority aforesaid, That this Act shall continue in force until the first day of May, One thousand seven hundred and seventy-six, and from thence to the end of the then next Session of Parliament. Continuance of the Act.

A.D. 1798. ANNO TRICESIMO OCTAVO GEORGII 3. CAP. 59.

An Act to revive and continue, until the first day of January, 1799, an Act passed in the 14th year of the Reign of his present Majesty, Chap. 42., videlicet, on the 13th day of January, 1774, intituled "An Act to prohibit the importation of light silver coin of this Realm "from Foreign Countries into Great Britain or Ireland, " and to restrain the tender thereof beyond a certain sum," and to suspend the coining of silver (June 21st, 1798):—

Whereas an Act was passed in the fourteenth Year of His present Majesty, intituled "An Act to prohibit the "importation of light silver coin of this realm from "Foreign Countries into Great Britain or Ireland, and "to restrain the tender thereof beyond a certain sum;" which Act was to continue in force for a limited time, and is now expired; And whereas it is proper, under the present circumstances, that the said Act should be revived and further continued: Be it therefore enacted by the King's most excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and 14 Geo. 3. c. 42. Recited Act revived and continued to June 1, 1799.

Commons in this present Parliament assembled, and by the Authority of the same, That from and after the passing of this Act, the said Act, and all the Provisions thereof, shall be and the same is hereby revived and shall continue and be in force until the first day of June, 1799.

No silver bullion to be recoined, nor any silver coin delivered.

II. And whereas His Majesty has appointed a Committee of his Privy Council to take into consideration the state of the coins of this Kingdom, and the present establishment and constitution of His Majesty's Mint, and inconvenience may arise from any coinage of silver until such regulations may be framed as shall appear necessary: And whereas from the present low price of silver bullion, owing to temporary circumstances, a small quantity of silver bullion has been brought to the Mint to be coined, and there is reason to suppose that a still further quantity may be brought, and it is therefore necessary to suspend the coinage of silver for the present: Be it therefore enacted, That from and after the passing of this Act, no silver bullion shall be coined at the Mint, nor shall any silver coin that may have been coined there be delivered, any law to the contrary in any wise notwithstanding.

Persons who delivered silver to be coined previous to May 9, 1798, to receive value, as if coined.

III. And be it further enacted, That all persons who delivered silver at the Mint, for the purpose of the same being coined, previous to the ninth day of May, 1798, shall be entitled to receive, from the Officers of His Majesty's Mint, such a sum for each pound weight thereof as shall be equal to the full value of the coin into which the bullion would have been converted, if the same had been coined, according to the regulations of the Mint.

Act may be altered or repealed this session.

IV. And be it further enacted, That this Act may be altered, amended, or repealed during the present Session of Parliament.

A.D. 1799. ANNO TRICESIMO NONO GEORGII 3. CAP. 75.

An Act for reviving and making perpetual an Act made in the fourteenth year of the reign of His present Majesty, intituled "An Act to prohibit the importation of light silver coin of this realm from foreign countries into Great Britain or Ireland, and to restrain the tender thereof beyond a certain sum." (12th July, 1799.)

ANALYSIS OF THE FRENCH COINAGE OF JANUARY, 1726, BY M. DUPRÉ DE S. MAUR. "ESSAI SUR LES MONNOIES."*

SEIGNORAGE.

BAZINGHEN: tom. ii. p. 589.

IN order to know what is the duty of seignorage, which his Majesty takes upon the coins which were coined in execution of the edict of the month of January, 1726, it must be recollected that the marc of fine gold, that is to say, of 24 carats, is fixed at 740 livres, 9 sols, 1 denier $\frac{1}{11}$, and that the louis are at the standard of 21 carats $\frac{3}{4}$, deducting the remède; they have consequently 2 carats and $\frac{1}{4}$ less than the 24 carats; on dividing the 740 livres, 9 sols, 1 denier $\frac{1}{11}$ by 24, in order to know what is the amount of the carat of fine, it is found that this carat of fine is worth 30 livres, 17 sols; therefore the 2 carats and $\frac{1}{4}$ of fine which are wanting in the louis make the sum of 69 livres, 8 sols, 3 deniers, which seems to be the duty which the King takes upon each marc of louis, as well for the expense of coinage, as his duty of seignorage; but according to the edict of 1726, these louis d'or being of 30 to the marc, the 24 must be multiplied by 30, and we shall find that 720 livres are paid for the marc of gold of 21 carats $\frac{3}{4}$ fine, which is much more than the intrinsic value; for the marc of louis is only worth 671 livres, 10 deniers, so that to reach 720 livres, which is the value that the King has given to the 30 louis, there *are* 48 *livres*, 19 *sols*, 2 *deniers* of difference, which the King actually takes in duty, as well for the expense of coinage as for his duty of seignorage; for since each carat of fine, according to the valuation fixed by the edict at 740 livres, 9 sols, 1 denier is worth 30 livres, 17 sols, we must deduct 2 carats $\frac{1}{4}$, which make twice 30 livres, 17 sols, and deduct still for the quarter carat 7 livres, 14 sols, 3 deniers, which will make altogether the sum of 69 livres, 8 sols, 3 deniers, which must be subtracted from that of 740 livres, 9 sols, 1 denier; there remains 671 livres, 10 deniers, which is the intrinsic value of the marc of louis — thus it is clearly seen what the King takes per marc.

As for the crowns (écus) of 6 livres, in order to know what seignorage the King takes upon these coins, we must examine the last valuation of the marc of fine silver, that is to say, of 12 deniers, which is 51 livres, 3 sols, 3 deniers; and as we know that these crowns have currency for six livres, on examining how much of it enters into the marc, it is found there must be 8 crowns and $\frac{3}{10}$ of a crown to make the marc—by this it is seen that the marc of

* See pp. 49. and 53. antè.

crowns is given to the public for 49 livres, 16 sols, which is more than their worth; for being only at 10 deniers, 22 grains, their intrinsic worth is only 46 livres, 14 sols, 5 deniers; so that to reach 49 livres, 16 sols, which is the value which it has pleased the King to give them, there are 3 livres, 5 sols, 6¼ deniers, which is the duty the King takes per marc of crowns, for the expense of coinage and for his duty of seignorage; which is proved in this manner — we must divide the 51 livres, 3 sols, 3 deniers, which is the price of the valuation, by 12, in order to know what the denier of fine is worth; by this calculation it is found that it is worth 4 livres, 5 sols, 3 deniers, which must be deducted from the 51 livres, 3 sols, 3 deniers, to which adding 4 sols for the 2 grains which are wanting of the 11 deniers, that makes in the whole 4 livres, 9 sols, 3 deniers, which must be subtracted from the sum of 51 livres, 3 sols, 3 deniers; so that there will remain 46 livres, 14 sols, 5 deniers, which is the intrinsic value of the marc of crowns at 10 deniers, 22 grains.

A.D. 1844. ANNO SEPTIMO & OCTAVO VICTORIÆ REGINÆ, Cap. 32.

An Act to regulate the Issue of Bank Notes, and for giving to the Governor and Company of the Bank of England certain privileges for a limited period.

Whereas it is expedient to regulate the issue of bills or notes payable on demand: And whereas an Act was passed in the fourth year of the Reign of His late Majesty King William the Fourth, intituled "An Act for giving to the Corporation of the Governor and Company of the Bank of England certain privileges for a limited period, under certain conditions;" and it is expedient that the privileges of exclusive banking therein mentioned should be continued to the said Governor and Company of the Bank of England, with such alterations as are herein contained, upon certain conditions: May it therefore please your Majesty that it may be enacted; and be it enacted by the Queen's most excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons in this present Parliament assembled, and by the Authority of the same,

3 & 4 W. 4. c. 98.

Bank to establish a separate department for the issue of notes.

That from and after the thirty-first day of August, One thousand eight hundred and forty-four, the Issue of Promissory Notes of the Governor and Company of the Bank of England, payable on demand, shall be separated and thenceforth kept wholly distinct from the general banking business of the said Governor and Company; and the business of and relating to such issue shall be

thenceforth conducted and carried on by the said Governor and Company in a separate department, to be called "The Issue Department of the Bank of England," subject to the rules and regulations herein-after contained; and it shall be lawful for the Court of Directors of the said Governor and Company, if they shall think fit, to appoint a Committee or Committees of Directors for the Conduct and Management of such Issue Department of the Bank of England, and from time to time to remove the members, and define, alter, and regulate the constitution and powers of such Committee, as they shall think fit, subject to any bye laws, rules, or regulations which may be made for that purpose: Provided nevertheless, that the said issue department shall always be kept separate and distinct from the banking department of the said Governor and Company.

Management of the issue by Bank of England.

II. And be it enacted, That upon the thirty-first day of August, One thousand eight hundred and forty-four, there shall be transferred, appropriated, and set apart by the said Governor and Company to the Issue Department of the Bank of England Securities to the value of Fourteen million Pounds, whereof the debt due by the public to the said Governor and Company shall be and be deemed a part; and there shall also at the same time be transferred, appropriated, and set apart by the said Governor and Company to the said Issue Department so much of the gold coin and gold and silver bullion then held by the Bank of England as shall not be required by the banking department thereof; and thereupon there shall be delivered out of the said issue department into the said banking department of the Bank of England such an amount of Bank of England notes as, together with the Bank of England notes then in circulation, shall be equal to the aggregate amount of the securities, coin, and bullion so transferred to the said issue department of the Bank of England; and the whole amount of Bank of England notes then in circulation, including those delivered to the banking department of the Bank of England as aforesaid, shall be deemed to be issued on the credit of such securities, coin, and bullion so appropriated and set apart to the said issue department; and from thenceforth it shall not be lawful for the said Governor and Company to increase the amount of securities for the time being in the said issue department, save as hereinafter is mentioned, but it shall be lawful for the said Governor and Company to diminish the amount of such securities, and again to increase the same to any sum not exceeding in the whole the sum of fourteen million pounds, and so from time to time as they shall see occasion; and from and after such transfer and appropriation to the

said issue department as aforesaid it shall not be lawful for the said Governor and Company to issue Bank of England notes, either into the banking department of the Bank of England, or to any persons or person whatsoever, save in exchange for other Bank of England notes, or for gold coin or for gold or silver bullion received or purchased for the said issue department under the provisions of this act, or in exchange for securities acquired and taken in the said issue department under the provisions herein contained: Provided always, that it shall be lawful for the said Governor and Company in their banking department to issue all such Bank of England notes as they shall at any time receive from the said issue department or otherwise, in the same manner in all respects as such issue would be lawful to any other person or persons.

Proportion of silver bullion to be retained in the issue department.

III. And whereas it is necessary to limit the amount of silver bullion on which it shall be lawful for the issue department of the Bank of England to issue Bank of England notes; be it therefore enacted, That it shall not be lawful for the Bank of England to retain in the issue department of the said Bank at any one time an amount of silver bullion exceeding one fourth part of the gold coin and bullion at such time held by the Bank of England in the issue department.

All persons may demand of the issue department notes for gold bullion.

IV. And be it enacted, That from and after the thirty-first day of August, One thousand eight hundred and forty-four, all persons shall be entitled to demand from the issue department of the Bank of England, Bank of England notes in exchange for gold bullion, at the rate of three pounds seventeen shillings and ninepence per ounce of standard gold: Provided always, that the said Governor and Company shall in all cases be entitled to require such gold bullion to be melted and assayed by persons approved by the said Governor and Company at the expense of the parties tendering such gold bullion.

Power to increase securities in the issue department, and issue additional notes.

V. Provided always, and be it enacted, That if any banker, who on the sixth day of May, One thousand eight hundred and forty-four, was issuing his own bank notes, shall cease to issue his own bank notes, it shall be lawful for Her Majesty in Council at any time after the cessation of such issue, upon the application of the said Governor and Company, to authorize and empower the said Governor and Company to increase the amount of securities in the said issue department beyond the total sum or value of fourteen million pounds, and thereupon to issue additional Bank of England notes to an amount not exceeding such increased amount of securities specified in such Order in Council, and so from time to time: Provided always, that such increased amount of securities

specified in such Order in Council shall in no case exceed the proportion of two-thirds the amount of bank notes which the banker so ceasing to issue may have been authorized to issue under the provisions of this Act; and every such Order in Council shall be published in the next succeeding *London Gazette.*

Account to be rendered by the Bank of England.

VI. And be it enacted, That an account of the amount of Bank of England notes issued by the issue department of the Bank of England, and of gold coin and of gold and silver bullion respectively, and of securities in the said issue department, and also an account of the capital stock, and the deposits, and of the money and securities belonging to the said Governor and Company in the banking department of the Bank of England, on some day in every week to be fixed by the Commissioners of Stamps and Taxes, shall be transmitted by the said Governor and Company weekly to the said Commissioners in the form prescribed in the schedule hereto annexed marked (A.), and shall be published by the said Commissioners in the next succeeding *London Gazette* in which the same may be conveniently inserted.

Bank of England exempted from stamp duty upon their notes.

VII. And be it enacted, That from and after the said thirty-first day of August, One thousand eight hundred and forty-four, the said Governor and Company of the Bank of England shall be released and discharged from the payment of any stamp duty, or composition in respect of stamp duty, upon or in respect of their promissory notes payable to bearer on demand; and all such notes shall thenceforth be and continue free and wholly exempt from all liability to any stamp duty whatsoever.

Bank to allow 180,000*l.* per annum.

VIII. And be it enacted, That from and after the said thirty-first day of August, One thousand eight hundred and forty-four, the payment or deduction of the annual sum of One hundred and twenty thousand pounds, made by the said Governor and Company under the provisions of the said Act passed in the fourth year of the reign of His late Majesty King William the Fourth, out of the sums payable to them for the charges of management of the public unredeemed debt, shall cease, and in lieu thereof the said Governor and Company, in consideration of the privileges of exclusive banking, and the exemption from stamp duties, given to them by this Act, shall, during the continuance of such privileges and such exemption respectively, but no longer, deduct and allow to the public, from the sums now payable by law to the said Governor and Company for the charges of management of the public unredeemed debt, the annual sum of One hundred and eighty thousand pounds, any thing in any Act or Acts of Parliament, or in any agreement, to the contrary notwithstanding: Provided always, that

such deduction shall in no respect prejudice or affect the rights of the said Governor and Company, to be paid for the management of the public debt, at the rate and according to the terms provided in an Act passed in the forty-eighth year of the reign of his late Majesty King George the Third, intituled "An Act to authorize the advancing for the Public Service, upon certain conditions, a proportion of the balance remaining in the Bank of England, for the payment of unclaimed dividends, annuities, and lottery prizes, and for regulating the allowances to be made for the management of the National Debt."

48 G. 3. c. 4.

Bank to allow the public the profits of increased circulation.

IX. And be it enacted, That in case, under the provisions herein-before contained, the securities held in the said issue department of the Bank of England shall at any time be increased beyond the total amount of fourteen million pounds, then, and in each and every year in which the same shall happen, and so long as such increase shall continue, the said Governor and Company shall, in addition to the said annual sum of One hundred and eighty thousand pounds, make a further payment or allowance to the public, equal in amount to the net profit derived in the said issue department during the current year from such additional securities, after deducting the amount of the expenses occasioned by the additional issue during the same period, which expenses shall include the amount of any and every composition or payment to be made by the said Governor and Company to any banker in consideration of the discontinuance at any time hereafter of the issue of bank notes by such banker; and such further payment or allowance to the public by the said Governor and Company shall, in every year while the public shall be entitled to receive the same, be deducted from the amount by law payable to the said Governor and Company for the charges of management of the unredeemed public debt, in the same manner as the said annual sum of One hundred and eighty thousand pounds is hereby directed to be deducted therefrom.

No new bank of issue.

X. And be it enacted, That from and after the passing of this Act, no person other than a banker, who, on the sixth day of May, One thousand eight hundred and forty-four, was lawfully issuing his own bank notes, shall make or issue bank notes in any part of the United Kingdom.

Restriction against issue of bank notes.

XI. And be it enacted, That from and after the passing of this Act, it shall not be lawful for any banker to draw, accept, make, or issue, in England or Wales, any bill of exchange or promissory note or engagement for the payment of money payable to bearer on demand, or to borrow, owe, or take up, in England or Wales, any sums or sum of money on the bills or notes of such banker

payable to bearer on demand, save and except that it shall be lawful for any banker who was, on the sixth day of May, One thousand eight hundred and forty-four, carrying on the business of a banker in England or Wales, and was then lawfully issuing, in England or Wales, his own bank notes, under the authority of a licence to that effect, to continue to issue such notes to the extent and under the conditions herein-after mentioned, but not further or otherwise; and the right of any company or partnership to continue to issue such notes shall not be in any manner prejudiced or affected by any change which may hereafter take place in the personal composition of such Company or Partnership, either by the transfer of any shares or share therein, or by the admission of any new partner or member thereto, or by the retirement of any present partner or member therefrom: Provided always, that it shall not be lawful for any Company or Partnership now consisting of only six or less than six persons to issue bank notes at any time after the number of partners therein shall exceed six in the whole.

Bankers ceasing to issue notes may not resume.

XII. And be it enacted, That if any banker in any part of the United Kingdom, who, after the passing of this Act, shall be entitled to issue bank notes shall become bankrupt, or shall cease to carry on the business of a banker, or shall discontinue the issue of bank notes, either by agreement with the Governor and Company of the Bank of England or otherwise, it shall not be lawful for such banker at any time thereafter to issue any such notes.

Existing banks of issue to continue under certain limitations.

XIII. And be it enacted, That every banker claiming under this Act to continue to issue bank notes in England or Wales shall, within one month next after the passing of this Act, give notice in writing to the Commissioners of Stamps and Taxes at their head office in London of such claim, and of the place and name and firm at and under which such banker has issued such notes during the twelve weeks next preceding the twenty-seventh day of April last; and thereupon the said Commissioners shall ascertain if such banker was on the sixth day of May, One thousand eight hundred and forty-four, carrying on the business of a banker, and lawfully issuing his own bank notes in England or Wales, and if it shall so appear, then the said Commissioners shall proceed to ascertain the average amount of the bank notes of such banker which were in circulation during the said period of twelve weeks preceding the twenty-seventh day of April last, according to the returns made by such banker in pursuance of the Act passed in the fourth and fifth years of the reign of Her present Majesty, intituled

4 & 5 Vict. c. 50.

"An Act to make further provision relative to the returns to be made by banks of the amount of their notes in circulation;" and the said Commissioners, or any two of them, shall certify under their hands to such banker the said average amount, when so ascertained as aforesaid; and it shall be lawful for every such banker to continue to issue his own bank notes after the passing of this Act: Provided nevertheless, that such banker shall not at any time after the tenth day of October, One thousand eight hundred and forty-four, have in circulation upon the average of a period of four weeks, to be ascertained as herein-after mentioned, a greater amount of notes than the amount so certified.

Provision for united banks.

XIV. Provided always, and be it enacted, That if it shall be made to appear to the Commissioners of Stamps and Taxes, that any two or more banks have, by written contract or agreement (which contract or agreement shall be produced to the said Commissioners), become united within the twelve weeks next preceding such twenty-seventh day of April as aforesaid, it shall be lawful for the said Commissioners to ascertain the average amount of the notes of each such bank in the manner herein-before directed, and to certify the average amount of the notes of the two or more banks so united as the amount which the united bank shall thereafter be authorized to issue, subject to the regulations of this Act.

Duplicate certificate to be published in the Gazette.

Gazette to be evidence.

XV. And be it enacted, That the Commissioners of Stamps and Taxes shall, at the time of certifying to any banker such particulars as they are herein-before required to certify, also publish a duplicate of their certificate thereof in the next succeeding *London Gazette* in which the same may be conveniently inserted; and the Gazette in which such publication shall be made shall be conclusive evidence in all courts whatsoever of the amount of bank notes which the banker named in such certificate or duplicate is by law authorized to issue and to have in circulation as aforesaid.

In case banks become united Commissioners to certify the amount of bank notes which each bank was authorized to issue.

XVI. And be it enacted, That in case it shall be made to appear to the Commissioners of Stamps and Taxes, at any time hereafter, that any two or more banks, each such bank consisting of not more than six persons, have, by written contract or agreement (which contract or agreement shall be produced to the said Commissioners), become united subsequently to the passing of this Act, it shall be lawful to the said Commissioners, upon the application of such united bank, to certify, in manner herein-before mentioned, the aggregate of the amounts of bank notes which such separate banks were previously authorized to issue, and so from time to time; and every such certificate shall be published in manner herein-before

directed; and from and after such publication the amount therein stated shall be and be deemed to be the limit of the amount of bank notes which such united bank may have in circulation: Provided always, that it shall not be lawful for any such united bank to issue bank notes at any time after the number of partners therein shall exceed six in the whole.

Penalty on banks issuing in excess.

XVII. And be it enacted, That if the monthly average circulation of bank notes of any banker, taken in the manner herein-after directed, shall at any time exceed the amount which such banker is authorized to issue and to have in circulation under the provisions of this Act, such banker shall in every such case forfeit a sum equal to the amount by which the average monthly circulation, taken as aforesaid, shall have exceeded the amount which such banker was authorized to issue and to have in circulation as aforesaid.

Issuing banks to render accounts.

XVIII. And be it enacted, That every banker in England and Wales who, after the tenth day of October, One thousand eight hundred and forty-four, shall issue bank notes shall on some one day in every week after the nineteenth day of October, One thousand eight hundred and forty-four (such day to be fixed by the Commissioners of Stamps and Taxes) transmit to the said Commissioners an account of the amount of the bank notes of such banker in circulation on every day during the week ending on the next preceding Saturday, and also an account of the average amount of the bank notes of such banker in circulation during the same week; and on completing the first period of four weeks, and so on completing each successive period of four weeks, every such banker shall annex to such account the average amount of bank notes of such banker in circulation during the said four weeks, and also the amount of bank notes which such banker is authorized to issue under the provisions of this Act; and every such account shall be verified by the signature of such banker or his chief cashier, or, in the case of a company or partnership, by the signature of a managing director or partner or chief cashier of such company or partnership, and shall be made in the form to this Act annexed marked (B.); and so much of the said return as states the weekly average amount of the notes of such bank shall be published by the said Commissioners in the next succeeding *London Gazette* in which the same may be conveniently inserted; and if any such banker shall neglect or refuse to render any such account in the form and at the time required by this Act, or shall at any time render a false account, such banker shall forfeit the sum of One hundred pounds for every such offence.

Mode of ascertaining the average amount of bank notes of each banker in circulation during the first four weeks after 10th Oct. 1844.

XIX. And be it enacted, That for the purpose of ascertaining the monthly average amount of bank notes of each banker in circulation the aggregate of the amount of bank notes of each such banker in circulation on every day of business during the first complete period of four weeks next after the tenth day of October, One thousand eight hundred and forty-four, such period ending on a Saturday, shall be divided by the number of days of business in such four weeks, and the average so ascertained shall be deemed to be the average of bank notes of each such banker in circulation during such period of four weeks, and so in each successive period of four weeks, and such average is not to exceed the amount certified by the Commissioners of Stamps and Taxes as aforesaid.

Commissioners of Stamps and Taxes empowered to cause the books of bankers containing accounts of their bank notes in circulation to be inspected.

XX. And whereas, in order to insure the rendering of true and faithful accounts of the amount of bank notes in circulation, as directed by this Act, it is necessary that the Commissioners of Stamps and Taxes should be empowered to cause the books of bankers issuing such notes to be inspected, as herein-after mentioned; be it therefore enacted, That all and every the book and books of any banker who shall issue bank notes under the provisions of this Act, in which shall be kept, contained, or entered any account, minute, or memorandum of or relating to the bank notes issued or to be issued by such banker, or of or relating to the amount of such notes in circulation from time to time, or any account, minute, or memorandum, the sight or inspection whereof may tend to secure the rendering of true accounts of the average amount of such notes in circulation, as directed by this Act, or to test the truth of any such account, shall be open for the inspection and examination, at all seasonable times, of any officer of stamp duties authorized in that behalf by writing, signed by the Commissioners of Stamps and Taxes or any two of them; and every such officer shall be at liberty to take copies of or extracts from any such book or account as aforesaid; and if any banker or other person keeping any such book, or having the custody or possession thereof, or power to produce the same, shall, upon demand made by any such officer, showing (if required) his authority in that behalf, refuse to produce any such book to such officer for his inspection and examination, or to permit him to inspect and examine the same, or to take copies thereof or extracts therefrom, or of or from any such account, minute, or memorandum as aforesaid kept, contained, or entered therein, every such banker or other person so offending shall for every such offence forfeit the sum of One hundred pounds: Provided always, that the said commissioners shall not exercise the powers aforesaid without the consent of the Commissioners of Her Majesty's Treasury.

Penalty for refusing to allow such inspection.

XXI. And be it enacted, That every banker in England and Wales, who is now carrying on or shall hereafter carry on business as such, shall on the first day of January in each year, or within fifteen days thereafter, make a return to the Commissioners of Stamps and Taxes at their head office in London of his name, residence, and occupation, or, in the case of a company or partnership, of the name, residence, and occupation of every person composing or being a member of such company or partnership, and also the name of the firm under which such banker, company, or partnership carry on the business of banking, and of every place where such business is carried on; and if any such banker, company, or partnership shall omit or refuse to make such return within fifteen days after the said first day of January, or shall wilfully make other than a true return of the persons as herein required, every banker, company, or partnership so offending shall forfeit and pay the sum of fifty pounds; and the said Commissioners of Stamps and Taxes, shall on or before the first day of March in every year, publish in some newspaper circulating within each town or county, respectively, a copy of the return so made by every banker, company, or partnership carrying on the business of bankers, within such town or county, respectively, as the case may be.

All bankers to return names once a year to the Stamp Office.

XXII. And be it enacted, That every banker who shall be liable by law to take out a licence from the Commissioners of Stamps and Taxes to authorize the issuing of notes or bills, shall take out a separate and distinct licence for every town or place at which he shall, by himself or his agent, issue any notes or bills requiring such licence to authorize the issuing thereof, any thing in any former Act contained to the contrary thereof notwithstanding: Provided always, that no banker who, on or before the sixth day of May, One thousand eight hundred and forty-four had taken out four such licences, which on the said last-mentioned day were respectively in force, for the issuing of any such notes or bills at more than four separate towns or places, shall at any time hereafter be required to take out or to have in force at one and the same time, more than four such licences, to authorize the issuing of such notes or bills, at all or any of the same towns or places, specified in such licences in force on the said sixth day of May, One thousand eight hundred and forty-four, and at which towns or places, respectively, such bankers had on or before the said last-mentioned day issued such notes or bills, in pursuance of such licences or any of them respectively.

Bankers to take out a separate licence for every place at which they issue notes or bills.

Proviso in favour of bankers who had four such licences in force on the 6th of May, 1844.

XXIII. And whereas the several bankers named in the schedule hereto annexed marked (C.) have ceased to issue their own bank notes, under certain agreements with the

Compensation to certain bankers named in the schedule.

Governor and Company of the Bank of England; and it is expedient that such agreements should cease and determine on the thirty-first day of December next, and that such bankers should receive by way of compensation, such composition as hereafter mentioned; and a list of such bankers, and a statement of the maximum sums, in respect of which each such banker is to receive compensation, hath been delivered to the Commissioners of Stamps and Taxes, signed by the chief cashier of the Bank of England; be it therefore enacted, That the several agreements subsisting between the said Governor and Company and the several bankers mentioned in the schedule hereto relating to the issue of Bank of England notes, shall cease and determine on the thirty-first day of December next; and from and after that day, the said Governor and Company shall pay and allow to the several bankers named in the schedule hereto marked (C.), so long as such bankers shall be willing to receive the same, a composition at and after the rate of one pound *per centum* per annum, on the average amount of the Bank of England notes issued by such bankers respectively, and actually remaining in circulation, to be ascertained as follows; (that is to say), on some day in the month of April, One thousand eight hundred and forty-five, to be determined by the said Governor and Company, an account shall be taken of the Bank of England notes delivered to such bankers respectively by the said Governor and Company within three months next preceding, and of such of the said Bank of England notes as shall have been returned to the Bank of England, and the balance shall be deemed to be the amount of the Bank of England notes issued by such bankers respectively, and kept in circulation; and a similar account shall be taken at intervals of three calendar months; and the average of the balances ascertained on taking four such accounts shall be deemed to be the average amount of Bank of England notes issued by such bankers respectively, and kept in circulation during the year One thousand eight hundred and forty-five, and on which amount such bankers are respectively to receive the aforesaid composition of one *per centum* for the year One thousand eight hundred and forty-five; and similar accounts shall be taken in each succeeding year; but in each year such accounts shall be taken in different months from those in which the accounts of the last preceding year were taken, and on different days of the month, such months and days to be determined by the said Governor and Company; and the amount of the composition payable as aforesaid shall be paid by the said Governor and Company out of their own funds; and in case any difference shall arise

between any of such bankers and the Governor and Company of the Bank of England in respect of the composition payable as aforesaid, the same shall be determined by the Chancellor of the Exchequer for the time being, or by some person to be named by him, and the decision of the Chancellor of the Exchequer, or his nominee, shall be final and conclusive: Provided always, that it shall be lawful for any banker named in the schedule hereto annexed marked (C.) to discontinue the receipt of such composition as aforesaid, but no such banker shall by such discontinuance as aforesaid thereby acquire any right or title to issue bank notes.

Bank of England to be allowed to compound with issuing banks.

XXIV. And be it enacted, That it shall be lawful for the said Governor and Company to agree with every banker who, under the provisions of this Act, shall be entitled to issue bank notes, to allow to such banker a composition at the rate of one *per centum* per annum on the amount of Bank of England notes which shall be issued and kept in circulation by such banker, as a consideration for his relinquishment of the privilege of issuing his own bank notes; and all the provisions herein contained for ascertaining and determining the amount of composition payable to the several bankers named in the schedule hereto marked (C.) shall apply to all such other bankers with whom the said Governor and Company are hereby authorized to agree as aforesaid; provided that the amount of composition payable to such bankers as last aforesaid shall, in every case in which an increase of securities in the issue department shall have been authorized by any Order in Council, be deducted out of the amount payable by the said Governor and Company to the public under the provisions herein contained: Provided always, that the total sum payable to any banker, under the provisions herein contained, by way of composition as aforesaid, in any one year, shall not exceed, in case of the bankers mentioned in the schedule hereto marked (C.), one *per centum* on the several sums set against the names of such bankers respectively in the list and statement delivered to the Commissioners of Stamps as aforesaid, and in the case of other bankers shall not exceed one *per centum* on the amount of bank notes which such bankers respectively would otherwise be entitled to issue under the provisions herein contained.

Limitation of compositions.

Compositions to cease on 1st August 1856.

XXV. And be it enacted, That all the compositions payable to the several bankers mentioned in the schedule hereto marked (C.), and such other bankers as shall agree with the said Governor and Company to discontinue the issue of their own bank notes as aforesaid, shall, if not previously determined by the act of such banker as herein-before provided, cease and determine on the

first day of August, One thousand eight hundred and fifty-six, or on any earlier day on which Parliament may prohibit the issue of bank notes.

Banks within sixty-five miles of London may accept, &c. bills.

XXVI. And be it enacted, That from and after the passing of this Act it shall be lawful for any Society or Company or any persons in partnership, though exceeding six in number, carrying on the business of banking in London, or within sixty-five miles thereof, to draw, accept, or endorse bills of exchange, not being payable to bearer on demand, any thing in the herein-before recited Act passed in the fourth year of the reign of His said Majesty King William the Fourth, or in any other Act, to the contrary notwithstanding.

Bank to enjoy privileges, subject to redemption upon twelve months to be given after the first day of August, 1855.

XXVII. And be it enacted, That the said Governor and Company of the Bank of England shall have and enjoy such exclusive privilege of banking as is given by this Act, upon such terms and conditions, and subject to the termination thereof, at such time and in such manner, as is by this Act provided and specified; and all and every the powers and authorities, franchises, privileges, and advantages, given or recognized by the said recited Act, passed in the Fourth Year of the Reign of His Majesty King William the Fourth, as belonging to or enjoyed by the said Governor and Company of the Bank of England, or by any subsequent Act or Acts of Parliament, shall be and the same are hereby declared to be in full force, and continued by this Act, except so far as the same are altered by this Act; subject nevertheless to redemption upon the terms and conditions following; (that is to say,) at any time upon twelve months' notice to be given after the first day of August, One thousand eight hundred and fifty-five, and upon repayment by Parliament to the said Governor and Company or their successors of the sum of eleven million fifteen thousand and one hundred pounds, being the debt now due from the public to the said Governor and Company, without any deduction, discount, or abatement whatsoever, and upon payment to the said Governor and Company and their successors of all arrears of the sum of one hundred thousand pounds per annum in the last-mentioned Act mentioned, together with the interest or annuities payable upon the said debt or in respect thereof, and also upon repayment of all the principal and interest which shall be owing unto the said Governor and Company and their successors upon all such tallies, exchequer orders, exchequer bills, or parliamentary funds which the said Governor and Company or their successors shall have remaining in their hands, or be entitled to, at the time of such notice to be given as last aforesaid, then and in such case, and not till then, the said exclusive privileges of

Form of Notice.

banking granted by this Act shall cease and determine at the expiration of such notice of twelve months; and any vote or resolution of the House of Commons, signified under the hand of the Speaker of the said House in writing, and delivered at the public office of the said Governor and Company, shall be deemed and adjudged to be a sufficient notice.

XXVIII. And be it enacted, That the term "bank notes" used in this Act shall extend and apply to all bills or notes for the payment of money to the bearer on demand other than bills or notes of the Governor and Company of the Bank of England; and that the term "Bank of England Notes" shall extend and apply to the promissory notes of the Governor and Company of the Bank of England payable to bearer on demand; and that the term "banker" shall extend and apply to all corporations, societies, partnerships, and persons, and every individual person carrying on the business of banking, whether by the issue of bank notes or otherwise, except only the Governor and Company of the Bank of England; and that the word "person" used in this Act shall include corporations; and that the singular number in this Act shall include the plural number, and the plural number the singular, except where there is anything in the context repugnant to such construction; and that the masculine gender in this Act shall include the feminine, except where, there is anything in the context repugnant to such construction. Interpretation clause.

XXIX. And be it enacted, That this Act may be amended or repealed by any Act to be passed in the present Session of Parliament. Act may be amended.

SCHEDULES to which the Act refers.

SCHEDULE (A.)

BANK OF ENGLAND.

An Account pursuant to the Act 7 & 8 Vict. Cap. for the week ending on the Day of

Issue Department.

	£		£
Notes issued - - -		Government Debt - -	
		Other Securities - -	
		Gold Coin and Bullion -	
		Silver Bullion - - -	
	£		£

Dated the Day of 18

__________Cashier.

Banking Department.

	£		£
Proprietors' Capital -		Government Securities (including Dead Weight Annuity) - - - -	
Rest - - - - -		Other Securities - -	
Public Deposits (to include Exchequer, Saving Banks, Commissioners of National Debt, and Dividend Accounts) - - -		Notes - - - - -	
Other Deposits - - -		Gold and Silver Coin -	
Seven Day and other Bills -			
	£		£

Dated the Day of 18

____________Cashier.

SCHEDULE (B.)

Name and Title as set forth in the Licence -________________Bank.
Name of the Firm - - - - -________________Firm.
Insert Head Office, or principal Place of Issue________________Place.

An Account pursuant to the Act 7 & 8 Vict. Cap. of the Notes of the said Bank in circulation during the Week ending Saturday the Day of 18

Monday - - - -	
Tuesday - - -	
Wednesday - - - -	
Thursday - - -	
Friday - - - -	
Saturday - - - -	
6)	
Average of the Week -	

[*To be annexed to this Account at the End of each period of Four Weeks*]

Amount of Notes authorized by Law - -	£
Average Amount in circulation during the Four Weeks ending as above - -	£

I, being [the Banker, Chief Cashier, Managing Director, *or* Partner of the Bank, *as the Case may be*], do hereby certify, That the above is a true Account of the Notes of the said Bank in circulation during the Week above written.

(Signed)

Dated the Day of 18

SCHEDULE (C.)

Banks which have ceased to issue their own Bank Notes, under certain agreements with the Governor and Company of the Bank of England.

Bank of Liverpool.
J. Barned and Co.
Biddulph, Brothers, and Co.
Birmingham Banking Company.
Birmingham Town and District Bank.
Birmingham and Midland Banking Company.
Burgess and Son.
Coopers and Purton.
Cunliffes, Brookes, and Co.
Deane, Littlehales, and Deane.
Dendy, Comper, and Co.
Devon and Cornwall Banking Company.
Grants and Gillman.
Hampshire Banking Company.
James W. R. Hall.
J. M. Head and Co.
Henty, Upperton, and Olliver.
Thomas Kinnersly and Sons.
R. J. Lambton and Co.
Liverpool Commercial Banking Company
Liverpool Union Bank.
Liverpool Borough Bank.
Manchester and Liverpool District Banking Company.
Manchester and Salford Banking Company.
Monmouth and Glamorgan Banking Company.
Moss and Company.
Mangles, Brothers.
Newcastle Commercial Banking Company.
Newcastle-on-Tyne Joint Stock Banking Company.
North of England Joint Stock Banking Company.
Northumberland and Durham District Bank.
Portsmouth and South Hants Banking Company.
T. and R. Raikes and Co.
Robinson and Brodhurst.
Sheffield Union Bank.
John Stoveld.
Sunderland Joint Stock Banking Company.
Tugwell and Co.
Union Bank of Manchester.
Vivian, Kitson, and Co.
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THE END.

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